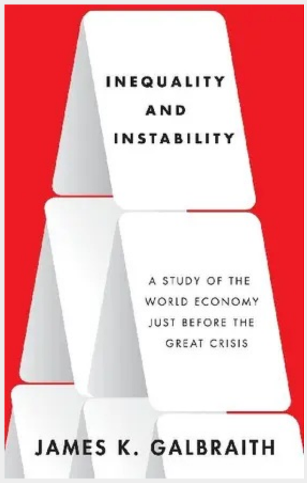
Galbraith

Inequality and Instability

A Study of the World Economy Just Before the Great Crisis

Inequality is a charged topic. Measures of income inequality rose in the USA in the 1990s to levels not seen since 1929 and gave rise to a suspicion, not for the first time, of a link between radical inequality and financial instability with a resulting crisis under capitalism. Professional macroeconomists have generally taken little interest in inequality because, within the parameters of traditional economic theory, the economy will stabilize itself at full employment. In addition, enlightened economists could enact stabilizing measures to manage any imbalances. The dominant voices among academic economists were unable to interpret the causal forces at work during both the Great Depression and the recent global financial crisis. In Inequality and Instability, James K. Galbraith argues that since there has been no serious work done on the macroeconomic effects of inequality, new sources of evidence are required. Galbraith offers for the first time a vast expansion of the capacity to calculate measures of inequality both at lower and higher levels of aggregation. Instead of measuring inequality as traditionally done, by country, Galbraith insists that to understand real differences that have real effects, inequality must be examined through both smaller and larger administrative units, like sub-national levels within and between states and provinces, multinational continental economies, and the world. He points out that inequality could be captured by measures across administrative boundaries to capture data on more specific groups to which people belong. For example, in China, economic inequality reflects the difference in average income levels between city and countryside, or between coastal regions and the interior, and a simple ratio averages would be an indicator of trends in inequality over the country as a whole. In a comprehensive presentation of this new method of using data, Inequality and Instability offers an unequaled look at the US economy and various global economies that was not accessible to us before. This provides a more sophisticated and a more accurate picture of inequality around the world, and how inequality is one of the most basic sources of economic instability.

As Wall Street rose to dominate the U.S. economy, income and pay inequalities in America came to dance to the tune of the credit cycle. As the reach of financial markets extended across the globe, interest rates, debt, and debt crises became the dominant forces driving the rise of economic inequality almost everywhere. Thus the "super-bubble" that investor George Soros identified in rich countries for the two decades after 1980 was a super-crisis for the 99 percent-not just in the U.S. but the entire world. Inequality and Instability demonstrates that finance is the driveshaft that links inequality to economic instability. The book challenges those, mainly on the right, who see mysterious forces of technology behind rising inequality. And it also challenges those, mainly on the left, who have placed the blame narrowly on trade and outsourcing. Inequality and Instability presents straightforward evidence that the rise of inequality mirrors the stock market in the U.S. and the rise of finance and of free-market policies elsewhere. Starting from the premise that fresh argument requires fresh evidence, James K. Galbraith brings new data to bear as never before, presenting information built up over fifteen years in easily understood charts and tables. By measuring inequality at the right geographic scale, Galbraith shows that more equal societies systematically enjoy lower unemployment. He shows how this plays out inside Europe, between Europe and the United States, and in modern China. He explains that the dramatic rise of inequality in the U.S. in the 1990s reflected a finance-driven technology boom that concentrated incomes in just five counties, very remote from the experience of most Americans-which helps explain why the political reaction was so slow to come. That the reaction is occurring now, however, is beyond doubt. In the aftermath of the Great Financial Crisis, inequality has become, in America and the world over, the central issue. A landmark work of research and original insight, Inequality and Instability will change forever the way we understand this pivotal topic.



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