Review of J.K. Galbraith, *Inequality and Instability - A Study of the World Economy Just Before the Great Crisis* (OUP 2012, 324 pages), by T. Piketty

Many books and op-eds are now being written about the interplay between rising inequality and the financial crisis. The merit of this refreshing book is that it brings new substantial statistical material into this pressing debate, as well as a set of novel insights. It is based almost entirely upon detailed results coming from the new UTIP (University of Texas Inequality Project) world inequality database. The UTIP project starts from the observation that standard inequality datasets have too few years and countries available and often draw on unreliable income surveys. Galbraith and his colleagues therefore decided to use widely available administrative data on average income and pay by geographical units and industrial sectors in order to compute Theil indexes (a well-know dispersion index) on an annual, long run basis for a large number of countries. The limitation of this approach is obviously that the levels of the indexes depend a lot of the number and distribution of cells and may not be fully comparable across countries (or over very long time periods). The key advantage, though, is that Galbraith is able to establish new and striking facts about inequality dynamics at the geographical and sectoral level. I found the results on U.S. inequality at the county level over the 1969-2007 particularly interesting. There are 3,150 counties in the U.S., with average per capita income ranging from $9,140 (Loup County, Nebraska) to $110,292 (New York, New York). What Galbraith shows is that 5 counties alone explain almost 50% of the total rise in US inequality since the 1980s, and that 15 counties explain all of it. Typically, per capita income doubled in NY, NY between 1994 and 2007 (from $56,905 to $110,292), while it barely stagnated in bottom counties. Galbraith is also able to document an interesting change in pattern between the 1990s (with booming incomes located in New York and California in finance and technology sectors) and the 2000s (with peaks in the Washington area and the sectors closed tied to national security and the extraction industries: oil, gas). These findings clearly reinforce the view that the rise in U.S. inequality is driven by the very top and by financial and macroeconomic policy choices, rather than by broad based skill biased technical change. Galbraith also proposes stimulating hypothesis about the origins of high European unemployment since the 1980s, which could be due to large inter-regional pay inequality (inducing large search induced unemployment, following the Harris-Todero-Kuznets model). A must read.