BOOKS

Organization for Economic Cooperation and Development

Future Global Capital Shortages

Real Threat or Pure Fiction?

OECD, Paris, 1996, 205 pp., $62 (paper).

How does the OECD answer the question posed in the title? The predictable answer is that if governments pursue good policies and make tough choices, the risks of a capital shortage can be minimized, but if governments fail to take appropriate steps and leave festering problems unaddressed, the consequences could be dire indeed. Two possible paths are traced out. In a virtuous-circle scenario, it is assumed that private saving rates in the industrial countries are not affected by demographic changes and are maintained at roughly current levels, while public saving increases sharply as governments rein in social spending. Some of this additional saving in the industrial countries flows to developing countries, where it helps to fund infrastructure development, promotes economic growth, and earns high rates of return. These high returns then serve to bolster the incomes of aging and retiring populations back in the industrial countries, and everyone comes out a winner.

In a vicious-circle scenario, industrial countries fail to control their social spending; there is a sharp global imbalance between ex ante investment and saving; interest rates spike upward; and both the industrial and developing worlds are trapped in an investment-starved phase of slow growth. In this unfortunate scenario, the authors speculate, economies would be more vulnerable to shocks and capital market volatility would be heightened.

This interesting set of papers by OECD staff members and some outside experts, such as Barry Bosworth and Axel Börsch-Supan, was prepared for a 1995 conference on the risks of a global capital shortage. Most of the papers address the issue in a straightforward manner by studying the supply of, and demand for, saving. The supply of saving is typically described as being determined by demographic factors; income growth; pension practices; and, of course, government saving; while the demand for saving—investment spending—is seen as a function of such factors as labor force growth and total factor productivity. By analyzing the way forces such as the aging of a country's population or government budget deficits affect these two factors, inferences are drawn about the risks that the ex ante demand for savings might greatly outstrip the supply. The authors speculate about possible ranges by which investment demands might outstrip supply—a figure of $400 billion–$500 billion is mentioned a couple of times.

Actually, the book could usefully have focused even more on the behavior of the global real interest rate to summarize the way that these supply and demand forces have collided in the past and are likely to in the future. For example, what is the global real interest rate today compared with what it was in, say, the 1960s? If public budget deficits in the industrial countries are not reduced, how much might the rate increase? It would be nice to know what an investment-saving imbalance might mean in terms of market feedback.

There is still a lot that we do not understand about the saving process, such as why the private saving rate declined noticeably in the 1980s and how saving rates are likely to change as populations age. (Bosworth argues that private saving rates will not decline much because of the aging of populations in most industrial countries.) In many ways the least understood aspects of the saving puzzle are what will happen in the developing countries. Will saving rates in East Asia decline noticeably when growth slows there as expected over coming decades? Will saving rates in Eastern Europe perhaps rise smartly with income growth? Overall, the papers are rather optimistic about medium-term saving prospects in the developing countries, concluding that the saving there should hold up well. But the book's authors seem to wonder whether after, say, 2010, governments in developing regions might be under growing pressures to increase pensions and raise living standards, and might therefore experience the same sorts of budget problems currently facing industrial countries. By devoting special chapters to developments in these non-industrial regions, *Future Global Capital Shortages* certainly makes useful contributions that a volume devoted only to saving in the industrial countries could not.

The policy messages of the book are clear. First, current government spending trends in industrial countries are unsustainable, and policymakers need to reduce budget deficits now, before the additional burdens created by aging populations hit. Second, tax systems may also need to be overhauled to make saving more attractive. Finally, a number of financial reforms are needed to make sure that developing countries can efficiently handle the expected increased inflows of capital. Above all, their markets must be sufficiently liberalized to ensure that they can respond to market signals.

Robert F. Wescott

Benno Ndulu, Nicolas van de Walle, and others

Agenda for Africa's Economic Renewal

Transaction Publishers (for the Overseas Development Council), New Brunswick, New Jersey, 1996, ix + 246 pp., $32.95 (cloth), $17.95 (paper).

After two decades of devastating economic decline, sub-Saharan Africa has finally shown signs of economic recovery. Real GDP growth in the region (excluding Nigeria and South Africa) rose to an average of some 5 percent during 1995–96. While this economic recovery is, of course, most welcome, even with this higher growth, the gap between Africa and the rest of the developing world has continued to widen. Moreover, if economic growth does not accelerate further, no visible positive impact on the living standards of a large majority of Africans can be expected for some time. African policymakers and the donor community, among others, are therefore very interested in finding out whether the recent economic recovery is only transitory or represents the beginning of Africa's much-awaited economic renewal.

Agenda for Africa's Economic Renewal offers valuable insights to readers who may be seeking an answer to this question. It provides, in its opening chapter, a lucid summary of an emerging consensus on what accounts for Africa's poor economic performance and identifies key elements of the strategies for economic renewal. The book then offers a collection of papers on each of these elements: macroeconomic stability, state capacity to govern, human capital, agricultural transformation, industrialization, and political reform. Although the overall quality of the chapters is somewhat uneven, they are generally well written. In particular, the paper by Deborah Brautigam ("State Capacity and Effective Governance") and that of E. Gyimah-Boadi and Nicolas van de Walle ("The Politics of Economic Renewal in Africa") deserve careful reading.

The central theme of the proposed strategy is to enhance "state capacity for development" and other institutions. Such capacity, it is argued, is needed to formulate and implement sensible macroeconomic policies and to provide basic public goods, such as an adequate infrastructure, the necessary regulatory framework, secure property rights, and an effective legal system. Bottlenecks in agricultural transformation need to be removed, in particular to reduce transport and other transaction costs, and to facilitate technological innovations. Universal free provision of basic health and education needs to be ensured, and other public policy actions, without which "investments in human resources will be inequitable and inefficient," need to be taken. In addition, trade and industrial policies that will encourage "African ownership" of industry and minimize "deindustrialization" in the short run need to be pursued.

The authors propose a three-pronged approach to building such state capacity. First, a competent and effective civil service should be established through reforms that do not aim simply at downsizing but rather at rebuilding professionalism and a sense of mission. Second, given that Africa's civil service capability is likely to remain limited in the near term, public services that can be handled by the private sector should be privatized, and policy interventions should be limited to high-priority areas. Third, democratic political reform—which could, over time, improve economic management, increase government accountability, and reduce corruption—should be pursued.

"If economic growth does not accelerate further, no visible positive impact on the living standards of a large majority of Africans can be expected for some time."

The authors' emphasis on capacity building is clearly appropriate, but it needs to be complemented by strategies aimed at integrating Africa into the globalization process, thus allowing it access to the full benefits to be derived from world trade, foreign direct investment, and other private financing. The need for fuller integration is clear: although net private external financing flows to developing countries rose from $29 billion in 1988 to $191 billion in 1995, the amount of such flows going to sub-Saharan Africa declined from $7 billion to $6 billion over the same period.

While the implications of globalization for Africa are highlighted in the book's opening chapter, unfortunately not all of the policy changes advocated by the authors are consistent with the task of facilitating the integration of Africa into global trade and capital markets. For example, import tariffs are still considerably higher in Africa than in the rest of the world. More ambitious trade liberalization—rather than the "slower, more realistic pace that would give enterprises the time to adjust" advocated by Sanjaya Lall and Frances Stewart in their chapter—is necessary. Moreover, the "massive debt reduction for Africa" recommended by Ibrahim A. Elbadawi may be neither necessary nor desirable for many African countries, such as Kenya and Zimbabwe, that enjoy a high ratio of tax revenue to GDP and have access to private capital. While such debt reduction is warranted for some countries, a blanket application of this measure might adversely affect those countries that could otherwise receive large private capital flows. In many African countries, privatization, rather than a massive debt reduction, is an appropriate measure to complement declining aid resources; fund education and health; strengthen infrastructure, such as telecommunications and power systems; and facilitate rapid industrialization.

What, then, is the prognosis for Africa's economic renewal? The authors stress throughout the book that to put in place the necessary ingredients for sustaining and accelerating economic growth will be a long-term process, a conclusion that may follow logically from their emphasis on capacity building. Their assessment of Africa's economic prospects is captured in the two concluding sentences of the book: "In the meantime, rapid growth of the kind witnessed in East Asia is not likely to be attainable by most countries in the region. With effective leadership, however, sustainable macroeconomic stability and slow but steady growth are possible." This may be a realistic assessment, but it is a disappointing conclusion for those of us who believe in and work for Africa's lasting economic renewal.

Hiroyuki Hino

Robert D. Kaplan

The Ends of the Earth

From Togo to Turkmenistan, From Iran to Cambodia—A Journey to the Frontiers of Anarchy

Random House, New York, 1996, 288 pp., $15 (paper).

The Ends of the Earth reports on journalist Robert Kaplan's travels through Cambodia, Egypt, Iran, Pakistan, Thailand, Turkey, West Africa, and the newly independent countries in Central Asia. After beginning with the metaphor of the rich gliding past the homeless in a limousine, Kaplan rolls down the tinted window through which those who live in the rich countries see the world. Kaplan does a wonderful service of trying to bring to the American consciousness the desperate state of a large part of the world's population. As a person who works in the area of development, I can only praise Kaplan for his good intentions in mentioning the realities of poverty to those riding with him in the limo.

However, modern historians have increasingly realized that visits between civilizations reveal as much or more about the culture and values of the visitor as they do about the visited. Kaplan physically carries only a knapsack but mentally pulls the heavy freight of a modern, well-off, Western, secular journalist. The four tensions that this dichotomy reveals illustrate the difficulties that proponents of continued support for development assistance face.

Sustainable versus development. While there appears to be a broad consensus in favor of "sustainable development," this masks deep tension over how much emphasis should be put on "sustainable" and how much on "development." Kaplan is constantly carping about the negative environmental consequences of development but hates the heat, the bugs, the filth, and the disease—in short, everything about the environment that development allows those of us in the limo to escape. By choosing in all his journeys to praise without reservation only a small-scale social experiment in India's Rishi Valley (while criticizing, for instance, aspects of Thailand's rapid growth), Kaplan appears to be taken in by the fact that, as seen through the limo's window, the hard, grinding life of a rural peasant looks pleasantly bucolic compared with the grime, congestion, and air pollution of rapid industrialization and urbanization.

Poverty versus population. Everyone would like there to be fewer poor people, but there is tension between fewer people and less poverty. Kaplan is obsessed with population, but he never mentions any solid evidence (because there is none) that population growth per se is a cause or even an exacerbating condition of poverty. Kaplan unwittingly reflects the tensions inherent in the racist and eugenic roots of the modern anti-natal movement. Certainly, if all poor people were forcibly sterilized, the growth in the absolute number of poor people would decline, but this would hardly be a reflection of concern or respect for the poor. Despite the fact that Kaplan himself comes from a country whose population has increased sixfold since 1870 (a demographic fact to which many attribute its preeminence on the global stage), he does not seem to understand an African official's intense resentment of proposals to condition aid on birth rate reductions.

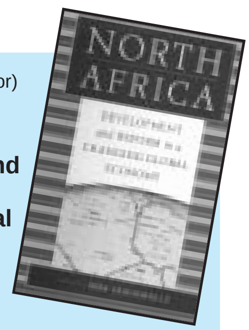
Culture versus commerce. Kaplan has been sufficiently freed from the threat of a hungry belly to be an aesthete, which reflects itself in a preference for beauty over functionality, order and plan over hustle and bustle, and the life of the mind over making money. Kaplan refers disparagingly to the growing urban areas he visits as "unplanned" or "sprawling." A thriving neighborhood that had sprung up around a site he read about in an old travelogue made the site "banal." He recognizes the tension between intellectual elites like himself and the people who actually work for a living, but cannot help but side with the California-educated returned Iranians over the *bazaari,* the unlettered men whose entrepreneurial energies make the world go round—for money.

Citizen versus technocrat. Kaplan seems frustrated that he can't understand everything without knowing anything. After preparing himself to understand the world by reading old travelogues, Conrad, Lawrence, and Jessica Matthews, he concludes, "the more I saw of the world the less I felt I could fit it into a pattern," and realized he would have to be "content with half-knowledge." He apparently didn't consider readings in science, economics, agronomy, political science, or technology necessary to enable him to understand the big questions.

Scientifically created capability so dominates nature that both nature and science become invisible; most people riding in the limo generally have no idea how it all works. Only this ubiquitous invisibility could fool one into believing that differences among people or cultures observed through casual travel could reveal answers that have eluded serious scholars for centuries. There is a limit to lay knowledge and journalistic queries and Kaplan reaches it.

Nevertheless, Kaplan has written a lively, interesting, and engaging travelogue of contemporary times. It is a refreshing antidote to the doubly distanced reports on conditions in developing countries that are produced through official channels. But this laudable, well-meaning, and influential book remains both deeply ambivalent about development itself and glaringly naive about basic development issues.

Lant Pritchett



Dirk Vandewalle (editor)

North Africa

Development and Reform in a Changing Global Economy

St. Martin's Press, New York, 1996, xviii + 286 pp., $49.95 (cloth).

This collection of essays makes a useful contribution to understanding the political economy of development and reform in Algeria, Libya, Morocco, and Tunisia. The various authors are guided by the "Social Structures of Accumulation" (SSA) approach (outlined in the initial chapters by Karen Pfeifer and Dirk Vandewalle), which emphasizes that economic development takes place within an evolving economic system and that supporting institutions provide the stability and predictability necessary for production and investment to proceed. The SSA approach is contrasted with the "Washington Consensus" approach, which "emphasizes 'orthodox' macroeconomic policy, trade liberalization, some form of privatization, deregulation, a general move toward increased reliance on market forces, and further integration with the world economy." The subsequent case studies and analysis do not shed much light on whether these two approaches are mutually exclusive, but they do provide clues as to "what public institutions are needed to frame private activity and maintain social cohesion while economic change is taking place," which practitioners of the Washington Consensus approach may also find interesting.

A brief historical overview by Pfeifer recalls how, after they achieved independence, the new Maghreb countries adopted a development strategy emphasizing a dominant role for the public sector. As things turned out, this strategy could not fully meet the expectations of equity and higher living standards it had aroused, because of growing inefficiencies in the public sectors as well as external shocks. Its serious shortcomings—which varied between countries—and North African countries' considerable success in extending production and diversification triggered growing challenges to the state's legitimacy from various social groups, including trade unions, Islamic protest movements, participants in the parallel economy, and an emerging managerial class. Consequently, economic and political reforms began to transform the Maghreb states in the 1980s, and by the early 1990s all of them except Libya had adopted economic strategies consistent with the Washington Consensus approach, an outcome considered puzzling "in light of the high social costs and rather modest results of short-term macroeconomic stabilization efforts and medium-term adjustment." Pfeifer also fears that further opening these economies to foreign trade and investment may make them more vulnerable to international business cycles and force them to depress wages and taxes to attract foreign investment.

The chapter by Will D. Swearingen highlights the complete reversal of agricultural policies (except in Libya) during the 1980s in response to poor performance and fiscal pressures. Producer prices imposed by official marketing agencies were raised or liberalized; food subsidies were cut; and Algeria started to reprivatize the state-farm sector. Production increased (most dramatically in Morocco) but was in all countries outstripped by population growth; further extension of cultivation will likely run into environmental constraints.

The chapter by Azzedine Layachi on reform in Algeria argues that successful reform will require the state to enhance its legitimacy through further democratic opening. This analysis is complemented by a review of economic discourse in Algeria in the chapter by Deborah Harrold. A well-focused chapter by Christopher Alexander on Tunisia traces the evolution of labor unions, which, after sometimes turbulent relations with the state and employers following the break with the socialist strategy in 1969, eventually accepted the basic premises of economic reform and have successfully focused on issues related to wages and the workplace since 1989. An interesting review by Vandewalle of developments in Libya—integrating historical, sociological, and economic analysis—concludes that the state was never forced to create or improve the institutions necessary to "regulate, to dispense law, to define and enforce property rights, and to tax and collect information," which, in turn, are required to establish markets and make liberalization and privatization possible. While the first oil boom during the 1960s created the need for some central structures, the main role of the state—whether under the monarchy through 1969 or the Jamahiriya since—is seen as having been one of distributing rents with a view to preserving sufficient support for the government.

Two essays discuss the relations of the Maghreb with Europe, which has remained the region's dominant economic partner. Political stability, immigration, and environmental issues have emerged as important common concerns requiring concerted efforts from both regions. However, while Europe has become increasingly unified with strong common institutions, efforts at Maghreb regional integration have been ineffective (Vandewalle). The chapter by Gregory W. White presents a narrative of recent relations between the EU and Morocco that also attempts to provide evidence of an extension of the state's role to include marketing the country to foreign investors to achieve such domestic objectives as employment creation.

The concluding chapter, by I. William Zartman, returns to the basic SSA theme: the state and society need to continuously—and, from time to time, through revolutions, social pacts, or critical elections—negotiate and adapt the institutions that maintain law and order, manage and resolve conflicts, and ensure production and investment. Morocco and Tunisia are seen as currently pursuing mutually reinforcing political and economic liberalization, with Algeria likely to follow. As for Libya, the debate is seen as remaining wide open as to the timing and sequence of political and economic reforms.

Klaus Enders

Age F. P. Bakker

The Liberalization of Capital Movements in Europe

The Monetary Committee and Financial Integration 1958–1994

Kluwer Academic Publishers, Dordrecht, 1996, xviii + 333 pp., $99 (cloth).

This book is an important addition to the growing literature on the liberalization of international capital movements. As a retrospective on the process of liberalization of capital flows in Europe, it is especially valuable in informing the current debate on promoting capital account convertibility globally. The book is rich in institutional detail; by making the connections between exogenous political and economic developments and the positions of key countries (such as France, Germany, and the United Kingdom), the author places capital liberalization in the broader context of European integration.

Several lessons emerge from Bakker's review of the European experience. The first is that macroeconomic stability and policy consistency are critical for sustaining a liberal regime for capital movements. In the European context, the primary motivation for the use of capital controls in the 1960s lay in the "incompatible triangle" of exchange rate stability, monetary autonomy, and freedom of capital movements.

Concern about downward pressures on exchange rates arising from speculative capital flows led to restrictions on capital outflows in France and other countries. In the late 1960s, large capital flows to such countries as Germany prompted them to restrict capital inflows in order to preserve domestic stability. Restrictive impulses were particularly strong in countries experiencing macroeconomic instability (France and Italy), and those with good records of macroeconomic performance (such as Germany) led the way in liberalizing capital movements.

The second lesson is that under fixed exchange rate arrangements, full liberalization of capital movements entails a willingness to cede a degree of autonomy over financial policies. The early experience with the Treaty of Rome is particularly instructive in this regard. The Treaty embodied the objective of freedom of capital movements, but this was subordinated to the need to ensure the proper functioning of the Common Market. This escape clause proved to be a major limitation as countries imposed restrictions in an effort to obtain a measure of monetary policy autonomy under the Bretton Woods system. More generally, countries were unwilling to accept the limitations on their autonomy to formulate and implement financial policies that free capital movements would have required.

The third lesson is that a benign external environment and cyclical phase are more conducive to capital liberalization. Bakker discusses how the economic shocks of the early 1970s contributed to a turning away from capital liberalization, even in countries like Germany, which traditionally had supported it.

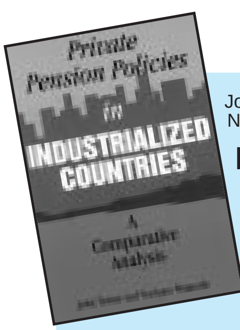
In addition, acceptance by a critical mass of countries of the benefits of liberalization is an important prerequisite for the success of any multilateral approach to achieving this objective. In Europe, the United Kingdom and France's decisions to reverse themselves and favor freedom of capital movements in the late 1970s and early 1980s, respectively, tilted the balance toward full liberalization of capital movements.

In two areas, the book advances positions that appear to need further substantiation. The first is that freedom of capital movements exerts a disciplinary influence on macroeconomic policies. In the European context, this view was challenged by the Dutch, who argued early on that unhampered access to low-cost external borrowing in countries with sound macroeconomic policies and low inflation would further undermine discipline in countries with high inflation and relatively large fiscal deficits. More recently, the experience of Mexico and concerns about overheating in some Asian countries suggest the need for caution about the disciplinary effect of capital liberalization on macroeconomic policies.

The second is that capital controls are ineffective. This remains a hotly contested topic on which there is no consensus in the literature. While the weight of evidence provided by the European experience favors the author's position, the tendency of some countries (for example, Spain) to revert to restrictive measures and the Delors Commission's call for regulating destabilizing capital movements in the aftermath of the 1992–93 EMS crises argue for reserving judgment.

Overall, Bakker's book provides an insightful historical perspective on the important topic of capital liberalization, and it remains to be seen whether the European experience will support the views of those calling for extending freedom of capital movements more broadly.

S. Kal Wajid



John A. Turner and Noriyasu Watanabe

Private Pension Policies in Industrialized Countries

A Comparative Analysis

W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan, 1995, x + 171 pp., $24 (cloth), $14 (paper).

As the weaknesses of the public pay-as-you-go (PAYG) pension systems adopted after World War II become known, many countries are turning to other models to ensure adequate retirement incomes for their aging populations. Richer, demographically mature countries are searching for ways to reduce the costs of their public systems and place them on a sustainable financial basis as their labor forces contract because of the aging of the baby boom generation. In the face of very rapid demographic change, developing countries are also seeking alternatives in order to avoid high pension costs. In China, for example, the share of the population over 60 is projected to double in about 30 years, which could pose a large dependency burden on working households unless a major saving effort is undertaken. Partial or total privatization of retirement programs is gaining support as one solution to these problems. Those seeking to enter the debate by learning the most common features of private pension systems in high-income countries can productively consult *Private Pension Policies in Industrialized Countries*, a very accessible survey of this topic.

What exactly is a private pension? What is meant by privatization? The authors recognize that these terms have been used very loosely to cover a wide range of retirement schemes and policies. Their definition of a private pension plan is as follows: "an employer-provided or an employee group-sponsored plan that provides retirement benefits for private sector workers" (page 3). To their credit, they apply this definition generously, including programs such as Chile's (which is not employer sponsored but privately managed and covers both public and private sector workers) and France's (which is basically a mandatory public PAYG system subdivided by occupational groups that survives through mandatory cross-subsidization across groups). While about a dozen systems are referred to in different chapters of the book, the bulk of the discussion is on the systems in the United States, the United Kingdom, and Japan. Participation in these systems is voluntary (that is, the employer or employer group is not required to offer a plan), and the policy implications of this approach to providing pensions dominate the book's discussion. Special attention is devoted to the "contracting out" approach to privatizing pensions now being used in Japan and the United Kingdom, where employers can place a portion of their mandatory contributions to the public pension system into privately managed, fully funded ones.

Social safety net policies (particularly pension policies) tend to be idiosyncratic, reflecting each country's history and values. There is no consensus today on what policies governments should follow to prevent old-age poverty, and the implications for economic growth, development, and poverty reduction of pursuing different approaches to providing income security for the old are widely debated. Even if a consensus existed among industrialized countries, its application to other countries would not be simple owing to their differing demographics, economic characteristics, and values. The strength of *Private Pension Policies in Industrialized Countries* is the authors' distillation of these idiosyncratic systems into a set of very understandable comparisons focusing on a standard set of characteristics (coverage, funding and asset management, regulation and risk-sharing, tax policies, portability, and interaction with the labor market). Especially useful is the discussion of the "contracting out" approach, since this is often suggested as an alternative to the Latin American approach to privatization for countries that wish to reduce the role of government in providing old-age security. The financial aspects of policies are relatively underdeveloped in this survey, since the focus of the book is primarily on regulation.

The weakness of the book is that it contains no original social science research on behavior of individuals or aggregates. Current research is not surveyed critically. This is unfortunate, given the effort the authors spent on learning the institutional details of a number of systems. For example, it would have been much more interesting if the survey of the taxation of pension benefits and contributions in several countries had analyzed whether these differences actually were related to labor force coverage or whether other features of the system were more important. Gender issues are also underdeveloped in the book, despite the well-known fact that the differences in life expectancy and labor force participation between women and men can lead to very different retirement income outcomes, depending on the pension policy regime. However, since at least one of the authors is a very prolific writer, perhaps another, more analytical work will be forthcoming.

Louise Fox

Rosa María Lastra

Central Banking and Banking Regulation

Financial Markets Group, London School of Economics and Political Science, 1996, viii + 329 pp., £20.00 (paper).

For long relegated to the abstruse universe of the specialist, central banking has now come to the forefront of the economic policy debate, and central bankers have accordingly taken a far more visible role among the community of economic policymakers. These developments reflect the importance for an economy's performance of the maintenance of *sound money*. And with them came the trend toward the establishment of central bank independence and accountability that is currently under way. Recent experience in a wide variety of countries with banking and financial sector difficulties, in turn, has added to the renaissance of central banking by underscoring the critical role of *sound banking* for economic stability and efficiency. Because of their oversight responsibility with regard to the health of the banking system, increased attention has also been given to central banks.

Dr. Rosa Lastra's book represents a major contribution in all these domains. The volume examines thoroughly the subject of central bank independence, bringing together information and analysis in all its various and complex dimensions as an instrument for the protection of the soundness of money (Chapter 1). It also covers the subject of banking regulation and supervision in a setting where the boundaries between banks and other financial institutions are becoming blurred and where markets are more and more global. The issues are examined in a national context in a tour de force, all-encompassing survey (Chapter 2). This examination is supplemented by a comprehensive discussion of international banking regulation, focused on the work of the Basle Committee on Banking Supervision and on a review of banking policy in the EU (Chapter 3). The institutional setting for the soundness of banking is thus examined in all its depth. This book is clearly necessary reading not only for specialists on the subject but also for those with a general interest in financial issues and developments.

Manuel Guitián

Leszek Balcerowicz

Socialism, Capitalism, Transformation

Central European University Press, Budapest, 1995, vi + 377 pp., cloth ($65), paper ($21).

This book, which consists of a collection of Leszek Balcerowicz's previously published research papers, provides an interesting overview of the economic considerations and convictions that have guided him before, during, and after his stay in office as finance minister and deputy prime minister in the critical period of Poland's economic transformation. The three main sections of the book closely reflect Balcerowicz's own "transformation" from a scholar interested in studying the performance of alternative economic systems and institutions, into the principal architect and power broker of Poland's transformation to a market economy, and then into the accomplished opposition politician, scholar, and advisor that he is today. In all of his writings, economic systems, institutional and economic change, human behavior, and the interactions among these take center stage.

The first section, "Socialism versus Capitalism," consists mostly of papers written in the 1980s. It is devoted to analyzing the main problems of socialist economic systems (like shortages or lack of incentives for innovation), exploring options for reforming socialism, and reflecting on the compatibility and performance of different political and economic systems. A main conclusion Balcerowicz arrived at early in his career as a scholar was that in light of the grave economic problems Eastern Europe faced at the time, the search for market solutions would inevitably go beyond those that could appropriately be described as "socialist." A second, closely related conclusion that emerges from these earlier writings is that "to be successful . . . reform must have a special dynamic: its first step has to be very big," and that this has to include "fundamental changes in the property rights and ownership structures, and in the foreign trade regime." All of these conclusions, of course, foreshadow the reforms he initiated in Poland during 1989–91.

The second section, "From Socialism to Capitalism,"is a collection of papers written after the author left office in 1991 and offers his thoughts on transformation processes in Eastern Europe. These processes fall into three main categories: macroeconomic stabilization, microeconomic liberalization, and institutional restructuring. The spirit of these papers mirrors that of Balcerowicz's earlier writings as a scholar, but they carry the added weight of having been written by a successful policymaker. He suggests that the region's policymakers have no alternative but to adopt disciplined monetary and fiscal policies if they seriously intend to stop hyperinflation and stabilize the economy.

Balcerowicz also argues that these policies need to be complemented by strict wage controls, which are necessary not only to break the inflationary momentum but also because institutional biases in socialist economies tend to favor workers. Similarly, he suggests that in order to abolish shortages and elicit a strong supply response, it is essential for Eastern European economies to undertake a radical liberalization of prices and foreign trade, which, in turn, will entail unifying their exchange rates and making their currencies convertible.

I found the third section, "Polish Economic Reform: 1989–93," to be the most interesting one. In particular, the concluding paper, which offers Balcerowicz's personal reflections on Poland, provides fascinating insights into how that country's stabilization and transformation was managed on a day-to-day basis, and how it was possible to maintain control of this overwhelming task.

This section also offers some of the more personal reasons for Balcerowicz's "anti-gradualism": clearly, what induced him to adopt this approach was not just his conviction that "radical is less risky" in undertaking a stabilization program or that people are more likely to change their attitudes and behavior if they are faced with radical change they consider irreversible but also the specter of being called a failed reformer.

In this context, he mentions Argentina's Raúl Alfonsín, who, he argues, came into office "as a very popular politician [but] lost both the popularity and the stabilization." In contrast, Balcerowicz says, his own unsentimental perspective may have helped him to decide in favor of "those policy options that were associated with the higher risk of being rejected by society but which, if implemented, promised to bring better economic results than those that were socially less risky but economically also less promising." A main conclusion to be drawn here is that what makes for a successful economic stabilization and transformation is not just policymakers' guiding economic principles and convictions but also their personalities and strength of character.

Gerd Schwartz