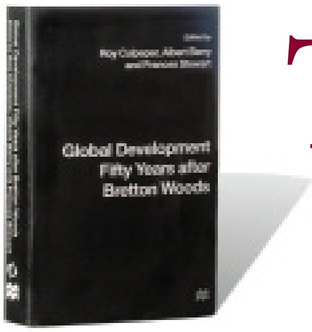


Roy Culpeper, Albert Berry, and Frances Stewart (editors)

Global Development Fifty Years after Bretton Woods

Essays in Honour of Gerald K. Helleiner

Macmillan Press Ltd. London, 1997, viii + 400 pp., £52.50 (cloth), £26.00 (paper). St. Martin's Press, New York, 1997, viii + 400 pp., $65.00 (cloth), $22.95 (paper).

THIS COLLECTION of essays is the outcome of a colloquium held in Ottawa in June ł to honor the well-known adian international de- pment economist, Gerald einer, and to commemorate fiftieth anniversary of the tion of the World Bank and tne IMF. There is consistency between these two objectives—Professor Helleiner has devoted a great deal of intellectual effort to ensuring that the Bretton Woods institutions serve their member countries' aspirations.

The essays cover issues ranging from trade, aid, private capital flows, and foreign direct investment to reform of the Bretton Woods twins. The book does not pretend to provide a diversity of opinion. With one or two exceptions, the authors share a distrust of the prevailing paradigm of neoclassical economics, believing for the most part that market mechanisms are "too often inefficient" as well as "not able to bring about socially desirable or equitable outcomes." Moreover, they are critical of the Bank and the IMF, arguing persuasively for change. The authors—with one exception—believe, however, that these institutions can be reformed. The exception, Keith Griffin, would go as far as replacing the World Bank and development assistance as we know it with a system of international taxation and transfers. The essays are well written, balanced, and sometimes provocative, making this volume an easy and stimulating read.

The book's unifying argument is that market-based, neoclassical approaches are inadequate for meeting the challenges of development. The argument has several strands. Some emphasize market inadequacy, noting that market models don't fully explain development. A stronger variant is that market-based approaches do harm. Finally, there is the view that the focus on the markets misses the essential point. According to Roberto Frenkel, distinct market orientations in Latin America prior to the debt crises suggest the role of external factors in producing the crises. Benno Ndulu concludes that, domestically, it is the ownership of policy reform, improved governance, and development capacity that will determine whether changes for the better will stick.

The critique of the Bretton Woods institutions is concentrated in thought-provoking essays by Gustav Ranis and Tony Killick. Ranis attempts a comprehensive assessment of the World Bank's role, arguing that it has emerged as a dominant, self-confident leader in lending, data collection, research, and policy advice. This has led to what Ranis calls "an essential lack of self-restraint" that has contributed to its three main weaknesses: a tendency to "fill every vacuum," rather than relying on partners; the pressure to lend; and a highly centralized decision-making structure.

Killick confines himself to the IMF's relations with low-income countries. His assessment is that IMF-supported programs appear to have a limited impact on key macroeconomic variables other than the real effective exchange rate, largely because of slippage in program implementation. Killick attributes this weak impact to the borrower's limited sense of program ownership. Because governments typically come to the IMF when they are already in a crisis, "staff do not have the time to ensure that the government is fully on board, just as the government will not have the time (even when it has the desire) to undertake the consultations and public information necessary for consensus building." While the programs may not be effective, Killick rightly observes, the IMF now has less difficulty persuading governments of the wisdom of following its advice, given the increasing acceptance of the "Washington consensus."

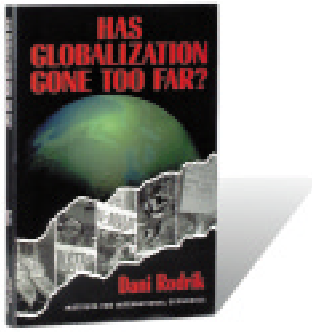
One view, shared by Ranis, is that the IMF should leave stabilization and adjustment programs in low-income countries to the Bank. Killick rejects this view, arguing that the current collusive oligopoly facing low-income countries would be preferable to a monopoly, particularly because the Bank may suffer from some of the same problems and arrogance that are attributed to the IMF. Moreover, if the Bank is to take selectivity seriously, it would be inappropriate to expand its mandate.

A second view is that the IMF should design programs based on a cost-minimization framework, assuming a minimum required growth rate, rather than letting the growth rate be a residual. The IMF now pays much more attention to the impact of its programs on growth. But, here again, the advice is not easy to implement in a world of declining aid flows and donors' reluctance to foot the bills implicit in IMF programs.

Killick's analysis fails to focus on Bank-IMF relations. In best-practice situations, the two institutions complement each other, with the Bank's longer-term development focus integrated into the IMF's short-term stabilization programs. How to make this work consistently in favor of low-income countries is a challenge the two institutions must address.

The value of these writings in honor of Professor Helleiner is in placing human development, participatory methods, and institution building at the core of development priorities. Unfortunately, the considerable intellectual strength of the authors is directed more at what is missing from market-oriented approaches than at confronting the need for a positive, complementary agenda for action.

Vinod Thomas and Sarwar Lateef



Dani Rodrik

Has Globalization Gone Too Far?

Institute for International Economics, Washington, DC, 1997, xi + 128 pp., $20.95 (cloth), $17.95 (paper).

DANI RODRIK'S book addresses important economic and social problems based on a careful review of the evidence, while offering some intriguing and original contributions. Every reader will come away with some gems from this concise yet readable book. I have four personal favorites.

First is Rodrik's excellent review of the literature on whether globalization has contributed to wage inequality, particularly in the United States. This literature is tricky. Trade economists acknowledge that their workhorse Heckscher-Ohlin-Vanek model of comparative advantage—according to which trade depends on factor abundance—would predict a widening gap between the wages for skilled and unskilled workers in industrial countries as trade expands with poorer countries. Most economists agree, however, that it is difficult to attribute a significant fraction of increasing wage inequality in the United States to expanded trade with developing countries. Standing almost alone against this consensus, Professor Adrian Wood of the London School of Economics has made the case that previous estimates of trade effects on inequality are methodologically flawed and that these effects are, in fact, quite large. Rodrik provides a fair summary of the evidence on all sides.

Second, Rodrik brings together the results of his own original research on the link between trade openness and the extent of government spending. He argues that individuals in more open economies demand—and get, when political institutions are responsive—more insurance from their governments than do individuals in relatively closed economies. This is an important point: if greater exposure to external economic shocks increases risks for individuals, and, given that private insurance for individuals' incomes typically does not exist, then increased openness can be expected to lead to greater government involvement. In fact, one might expect trade economists to be leading the charge for social spending to mitigate risk because explicit insurance for individuals is vastly preferable to the indirect insurance that governments often provide by protecting declining firms and industries.

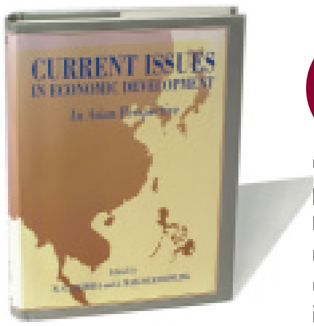
A third useful and original contribution is Rodrik's discussion of the notion that, rather than merely shifting the demand for unskilled labor up or down, globalization might have increased the elasticity of the demand for labor, so that the quantity of labor demanded is more responsive to wage changes. A change in the demand elasticity of labor has interesting implications both for the incidence of various labor regulations and for explaining the widening income gaps between individuals.

Fourth, I like Rodrik's discussion of "fair" trade, introducing philosopher Michael Walzer's notion of "blocked exchanges"—societal restrictions on what kinds of markets are allowed. I think that, in developing countries, most agitation for trade restrictions based on "social" concerns—like workplace safety, child labor, or rights to join unions—is based on the self-interest of labor in the richer countries. Rodrik quotes a representative from the AFL-CIO (American Federation of Labor and Congress of Industrial Organizations) saying that "labor costs should be removed from the equation" of international competitiveness. Because job compensation is a package of money wages and other elements—such as working hours, unpleasantness, safety, and personal satisfaction—if workers can compete by offering to work for lower wages, it does not make much sense to argue that they cannot compete by accepting less pleasant working conditions. Workers might actually prefer higher money wages and worse working conditions to the realistic alternative of better working conditions and lower wages. Rodrik's discussion of blocked exchanges is reminiscent of the legal doctrine of "unconscionability" in limiting the freedom of contract and makes an interesting contribution to the debate.

Rodrik makes a number of sensible proposals for both economists and policymakers. To economists, he recommends more concern for social problems, more openness to the idea that some problems might be exacerbated by globalization, and more modesty. Given the enormity of the social problems confronting us and how little we understand the relationship between these problems and globalization, following these recommendations should be easy.

In his concluding chapter, Rodrik recommends that governments "strike a balance between openness and domestic needs," "do not neglect social insurance," "do not use competitiveness as an excuse for domestic reform," and "do not abuse 'fairness' claims in trade." All of these are sensible proposals, but Rodrik, though optimistic, is no naïf. He concludes by quoting Albert Hirschman to the effect that making progress happen requires "political entrepreneurship, imagination, patience here, impatience there, and other varieties of virtù and fortuna."

Lant Pritchett



M.G. Quibria and J. Malcolm Dowling (editors)

Current Issues in Economic Development

An Asian Perspective

Oxford University Press, New York, 1997, xix + 432 pp., $65 (cloth).

CURRENT Issues in Economic Development: An Asian Perspective is an interesting conference volume covering diverse economic development issues presented by leading experts in the field. It contains many topics that would not generally be found in a standard development economics textbook. The issues range from governance, democracy, ethics, and corruption to trade liberalization, agricultural development, the environment, and population.

While the volume has a broad and conceptual focus, selected chapters also highlight the successful experiences of Asian countries (the Asian miracle), identifying their common patterns and any distinguishing characteristics that may have been largely responsible for their rapid growth during recent years. Because the book was published in early 1997, it does not include the events associated with the 1997 Asian crisis.

What factors are important for economic development, especially in Asia? A number of authors emphasize that adaptation of Western, market-based economic systems may not be sufficient for rapid development. While Paul Streeten argues for government intervention, Basant Kapur takes a nonmaterial, or philosophical, perspective on development. Similarly, Jean-Jacques Laffont focuses on the importance of credible or "enabling" regulations to stimulate private sector activity. Robert Barro, in an empirical chapter that covers 100 countries during 1960–90, focuses only on economic growth variables—such as per capita GDP growth—and finds little evidence of a link between democracy—proxied by an indicator of political rights—and growth. In contrast to several other authors, Rodney Falvey and T.N. Srinivasan conclude that export orientation, trade liberalization, and openness are critical for growth.

"The events of the past decade have shown that the links between financial factors and development should be further explored."

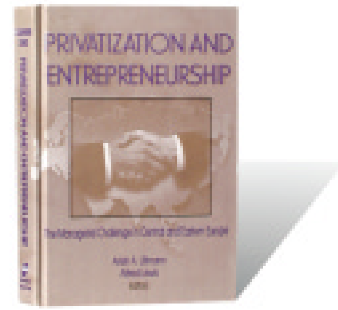
While praising the systems of East Asia, Streeten states: "It is now generally acknowledged that 'getting prices right' has not been the principal, and certainly not a sufficient, recipe for the success of East Asian countries, although their government interventions have been 'market-friendly,' and the markets have been 'people-friendly'. " For transition economies, the author compares the long-term effects of reform to the short-term ones, gradualism to shock therapy, and flexible economic systems to inflexible ones. His policy prescriptions for good governance include a long list of measures that range from social service provision to the maintenance of macroeconomic stability. However, his chapter does not address issues related to policy trade-offs and constraints or how such government spending will be financed.

In another interesting chapter, Kapur highlights the conflict between mainstream neoclassical economics and the role of ethics, culture, religion, and strong family values. He suggests that including these variables is likely to alter the predictions of models based exclusively on optimization behavior. The formidable ties between industry and government observed in Asian economies are strongly influenced by religion and culture. In criticizing self-interested behavior and the "me-first" mentality, Kapur argues that this phenomenon may have been responsible for the decline in technological competitiveness in the United States. However, it is now clear that the decline in U.S. competitiveness during the 1980s was reversed in the 1990s, when numerous companies streamlined their operations and significantly enhanced their competitiveness worldwide.

Because economies pass through cycles and phases throughout their history, it is useful to analyze their successes and failures in terms of paradigms. For instance, the prevalence of culture and family bonds that partly explain the strong ties between banking and industry in most Asian economies—such as Korea and Thailand—may have contributed to easy access to credit and rapid economic growth during the 1980s and early 1990s, but excessive incentives for moral hazard eventually resulted in bankruptcies and closures of numerous financial institutions in these countries. Moreover, given the recent experience of Asian countries, it has become clear that it is not that easy to maintain nontransparent and family-controlled financial systems in a world characterized by massive capital flows.

The chapters are well written and address a new generation of issues in development literature. The issues the book discusses, such as governance and ways to deal with corruption, are increasingly being included as part of policy recommendations. The events of the past decade have shown that the links between financial factors and development should be further explored. Overall, this volume will serve as a very valuable reference for policymakers.

Qaizar Hussain



Arieh A. Ullmann and Alfred Lewis (editors)

Privatization and Entrepreneurship

The Managerial Challenge in Central and Eastern Europe

International Business Press, New York, 1997, xix + 378 pp., $49.95 (cloth).

WHEN the countries of the former Eastern bloc began the monumental task of making private property the basis for productive relations, the writing on the subject focused almost exclusively on policy issues or on expectations of firm-level adjustments. Several monographs and short studies have also attempted to quantify changes in enterprise behavior and performance after privatization. But less is known of the precise managerial dynamics that this adjustment entailed.

This anthology attempts to fill the gap. It adds to a growing but, as yet, thin literature on concrete examples of management responses to privatization, covering a complex topic from diverse perspectives. The “challenge” in the book’s subtitle, one soon realizes, is left in the singular for a reason: in a short time, formerly centrally planned enterprises were forced to stop producing according to annual plans that dictated product lines, investments, wages, and prices and had to start manufacturing according to customer preferences, on the basis of relative prices. For an “embedded” corporate culture, reared on indifference toward customers, quality, and performance, this represented no less than a fundamental shift in practically every facet of managerial behavior.

The 21 contributions to the volume are evenly divided between conceptual papers and empirical papers based on survey research or case studies. Several of the conceptual papers offer some intriguing, provocative analyses of managerial changes not likely to be examined in modern business schools. Two examples are a semiotic perspective on changes in business language and symbolism by Devi Jankowicz; and a cultural analysis of the social embeddedness of capitalism by Michael Mauws and Nelson Phillips that, predictably, concludes that capitalism represents a peculiar constellation of “historically contingent, culturally specific” institutions that cannot be replicated in the post-communist countries of Eastern Europe and the former Soviet Union.

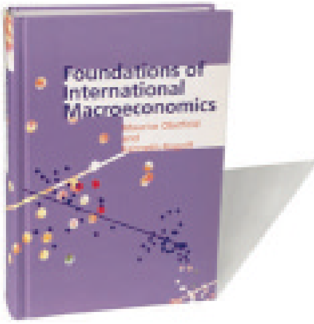
Other conceptual papers are more narrowly focused on specific questions, such as the role that mergers and acquisitions have played in privatizations in post-communist, developing, and industrializing countries (Julio de Castro and Nikolaus Uhlenbeck); whether a suitable system of patent protection can be implemented in Eastern and Central Europe (Scott Erickson); whether strategic partnerships between Western and Eastern European firms can be mutually beneficial (Fritz Kroger); and whether consumption practices of Western and Eastern European consumers will converge following the transition (Christoph Melchers).

More compelling are the empirical contributions, which are based on survey research, case studies of individual firms, or a combination of both, covering Bulgaria, the Czech Republic, Hungary, Poland, Romania, and Russia. The case studies offer some fascinating insights into the problems of standardizing accounting practices (David Lutz and James Davis), the evolution of the “idea” of entrepreneurship from one associated with criminal activity to one necessary for economic success (Robert Lynch and Valeri Makoukha), the positive impact of religious beliefs on entrepreneurship (Patrick Marx), and changes in banking practices (Patrick Arens and Keith Brouthers).

Some arguments regarding managerial changes in this lengthy volume tend to overuse such concepts as “social habit” and “attitude,” which are not defined independently of a concrete result. The best of these papers, however, avoid these more indeterminate propositions and instead attempt to explain how different managerial practices—in different countries or at different times—resulted in varying organizational performances and how different companies’ approaches to reinventing themselves in a market environment evolved. Frank Hefner and Douglas Woodward outline the circumstances in which foreign investment can transfer and spread entrepreneurial skills to local partners. In a chapter that should be particularly useful to students of strategic management, case histories of four Hungarian enterprises suggest that those firms that relied on “old-boy” networks for marketing and sales in the initial transition period may have been more successful at reorienting themselves. A related point—that prereform organizational endowments matter—is effectively made by Karen Newman and Stanley Nollen, who examine managerial responses to privatization in a Czech engineering firm.

In short, Ullmann and Lewis provide an unusual combination of articles based on a variety of approaches to analyzing the managerial imperatives of transition to market. The volume’s conclusion—that only a small portion of firms have effectively “recreated” themselves during the transformation—lends support to a standard claim in economic sociology—namely, that firms exist in a socialized web of interpersonal relations. To succeed, firm-level changes must therefore be preceded by changes in these networks.

Raj M. Desai



Maurice Obstfeld and
Kenneth Rogoff

Foundations of International Macroeconomics

MIT Press, Cambridge, Massachusetts, 1996, xxiii + 804 pp., $59.95 (cloth).

THIS book is a tour de force. As revealed by its title, it provides the foundations for a systematic, integrated treatment of the main issues in international macroeconomics. But the book has much more to offer than analytic rigor. The authors adopt a refreshingly chatty style and supply a lot of the detail that is missing in most academic journal articles. Along the way, they give numerous real-world examples to illustrate their theories and develop a number of useful diagrams and analytical devices. The book is designed to be used as a second-year graduate textbook, for which it is well suited.

The organizing principle of the book is that an open economy permits borrowing from, and lending to, the rest of the world. Such transactions are necessarily intertemporal—that is, they involve trading resources today for resources tomorrow. The focus is therefore on the determinants of the current account, which reflects the difference between forward-looking saving and investment decisions. This exchange, which is both international and intertemporal, allows consumers to smooth out their consumption over time; unbalanced current account positions may therefore serve a useful function and are not necessarily problematic. The intertemporal approach to the current account was developed in the 1980s and early 1990s, with contributions by Obstfeld and Rogoff.

Obstfeld and Rogoff are largely successful in developing a rigorous, integrated treatment of many topics, ranging from familiar exchange rate issues—such as speculative bubbles, target zones, and speculative attacks—to more specialized areas—such as the home bias (the extremely large share of equity wealth of residents held at home) and equity premium (the large difference between the rate of return on equities compared with government bonds) puzzles. They also analyze the impact of government deficits on the current account and provide a comprehensive treatment of Ricardian equivalence—the idea that an increase in the public debt will have little or no effect on real output and employment because taxpayers will save more in anticipation of future higher taxes to pay the higher interest expense on the debt. Surprisingly, however, their discussion of the U.S. fiscal expansion in the early 1980s and German unification in the early 1990s is not really informed by the intertemporal approach.

It is also odd that they do not cover the Dutch disease (when a boom in a country's natural resource sector produces a decline in other industries), a topic that lends itself to the analytic framework. But they do provide a masterful exposition of imperfections in international capital markets, covering a wide range of issues related to the debt crisis, such as sovereign risk and moral hazard. It will be interesting to see how they apply the intertemporal approach to the Asian crisis in a second edition of their book.

What sets this book apart, however, is the fully integrated sticky-price model based on dynamic optimizing behavior that the authors offer as an alternative to the Mundell-Fleming model (a model that extends the IS-LM framework to an open economy, but ignores supply-side and intertemporal considerations)—the traditional workhorse for policy analysis. The authors point out the obvious lack of microfoundations of this standard approach, although they provide a lucid exposition of the Mundell-Fleming-Dornbusch overshooting model—an extension of the Mundell-Fleming model—recognizing that it "remains so influential as to warrant discussion in any serious treatment of international monetary theory." They assert that perhaps the Mundell-Fleming model's most controversial implication is that an unanticipated monetary contraction leads to a temporary decline in output. This assertion is surprising, given that the recent literature on monetary policy shocks appears to support this aspect of the model.

Some of the results of the sticky-price model are similar to those from the Mundell-Fleming approach. For example, a surprise increase in the money stock causes a country's currency to depreciate, temporarily raising domestic income so that the country runs a current account surplus via the usual intertemporal consumption-smoothing channel. With nontraded goods added, there is even overshooting, as in the Dornbusch extension. However, the results relating to government spending appear anomalous: a permanent rise in world government spending leads to a fall in the short-term real interest rate, and a temporary rise has no impact on the real rate. These results may make sense within the specifications of the authors' model, but it is not clear how helpful they are for policy analysis.

In summary, the authors have much to say about real-world economic developments that is illuminating and sensible. It will take some time, however, before the new intertemporal paradigm replaces the existing Mundell-Fleming-Dornbusch model. This probably reflects an intertemporal adjustment on the part of economists who view the world through the prism of the old approach.

Peter Clark

Richard H.R. Harper

Inside the IMF

An Ethnography of Documents, Technology, and Organizational Action

Academic Press, San Diego, California, 1998, xii + 303 pp., $75 (cloth).

THIS book draws on extensive research during which the author had access to IMF staff at all levels. It describes the particular nature of the day-to-day demands placed on the institution and how work is organized and carried out to meet its various responsibilities. On this basis, the author develops important insights into the ways in which information technologies could be used to improve productivity while analyzing the constraints that the nature of the staff's work (and its working culture) places on the use of these new technologies. For the outside reader interested in how organizational cultures and technology work together, the book highlights how much organizational information is needed if new technologies are to be applied in an effective way.

This book is not a typical treatment of the IMF. Readers may assume from its title that the book deals with how economic policies and issues are dealt with in the IMF. Rather, the book is about a completely different subject—organizational behavior—and, as a case study of an international bureaucracy and how it deals with complex issues under pressure, the book will be of particular interest to students of organizational behavior.

Brian C. Stuart

Ian G. Heggie and Piers Vickers

Commercial Management and Financing of Roads

World Bank, Washington, DC, 1998, viii + 158 pp., $20 (paper).

THE purpose of this book is to assist governments to *commercialize* their roads, that is, to "bring roads into the marketplace, put them on a fee-for-service basis, and manage them like a business." Although written for officials in developing countries, the lessons of this book can be applied everywhere, because roads in all countries are still run as if they were public parks or social services, with little regard for commercial considerations. While not answering all questions of commercial management and financing, this book sheds light on many of them. Its strength lies in sound analysis, clear writing, and mountains of data.

This book is an expanded, updated, and international version of World Bank Technical Paper No. 275 in the Africa Technical Series and includes examples from industrial, developing, and transition economies. An article based on the earlier paper, "Commercializing Africa's Roads," by Rupert Pennant-Rea and Ian Heggie, appeared in the December 1995 issue of *Finance & Development*.

Gabriel Roth