

Yet Rauch is eventually propelled by his own analysis towards limited government. In the final chapter he urges citizens to realise that although government can do good, it can do only so much of it at a time. And 'If demoscclerosis gets worse rather than better, we'll just need to think harder about nongovernmental ways to solve things' (p.238).

It's too early to say whether the Republican victory in the 1994 Congressional elections promises real change. At worst, it merely confirms Rauch's point that Americans are disillusioned with politics rather than government, and have no intention of surrendering their 'hard-won' transfers. At best, it means that they are at last starting to prepare themselves psychologically for the new constitutional settlement that James Buchanan has been calling for, whereby they agree to stop exploiting both each other and future generations. Meanwhile, some signs have appeared that America may already be starting to adjust spontaneously to demoscclerosis. After all, America's public sector is, relatively speaking, considerably smaller than those of most other Western countries; the country's current macroeconomic performance is impressive; and even the growth rate of productivity is picking up again. And although Americans' flair for forming voluntary associations has become one of the causes of demoscclerosis (thus creating some difficulty for advocates of 'civil society' as a bulwark against the state), it originated at a time when government was tiny by modern standards and people had to learn to do things for themselves. But if Rauch wanted to encourage such changes, he would have to abandon his message that government can in principle do good, since this only delays the necessary shift of attitude away from frustration with the system to giving up on it and looking seriously at alternatives. Instead, he should advocate allowing Washington to seize up completely and to stand as a monument to transfer-seeking folly.

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Policies Matter

I. M. D. Little, Richard N. Cooper, W. Max Corden and Sarath Rajapatirana, Boom, Crisis, and Adjustment: The Macroeconomic Experience of Developing Countries, published for the World Bank by Oxford University Press, New York, 1993

Reviewed by Grant M. Scobie

The World Bank continues to be subject to criticisms on many fronts. But one of the things it does well is to undertake research projects and publish the results using its appreciable comparative advantage in both time series and, particularly, cross-sectional data. This book is the outcome of such a study. It offers a synthesis of 17 country studies commissioned for the project. Given the outstanding

calibre of a formidable authorship quartet, one approaches the volume with a keen sense of anticipation. Here should be found an up-to-date synoptic view of an important topic, written by recognised scholars and drawing on the best information available. The reader will not be disappointed.

The authors themselves, however, caution the reader. They warn that the quality of the data is sometimes questionable, and international and national sources are often not congruent. In fact, they estimate another five years would be needed to reconcile the figures and sift the nuggets from the sand. But the volume speaks of careful use of the data. Furthermore, attention to detail is reflected in the careful definition of exchange rates and how devaluation is measured. How often do authors glibly pass over the simple matter of whether devaluation is measured as a rise in the domestic price of foreign currency or a fall in the number of units of foreign currency per unit of domestic currency? It makes a difference.

The stage is set in Chapter 2, which provides an overview of major trends in the world economy from 1965 to 1990. In 20 pages it provides a masterly treatment of institutional and structural changes, reviews the major economic events and concludes with a succinct statement of the intellectual climate. This last section provides a tantalising glimpse of the changing role of the state.

It is a shame that the themes of microeconomic reform, deregulation and privatisation were not brought together in another chapter. Perhaps these issues were deemed tangential to the central concern of macroeconomic policies. But, arguably, the effectiveness of those policies is very much a product of the regulatory environment. Sound macroeconomic policies may well not bear their full fruits in an economy shackled by regulation and inefficient state-run enterprises.

Chapters 3, 4 and 5 comprise the economic history of the period. The period 1973-79 is characterised as one of cheap and easy credit, and Chapter 3 describes the ensuing borrowing and investment patterns.

Chapter 4 paints the rising storm clouds of 1979-82. The period opened with an oil shock, a rise in real interest rates, falling terms of trade and a slowing of economic growth in the OECD countries. The terms of trade and interest rate effects on GDP and exports are decomposed for each country, revealing diverging experiences but demonstrating the importance of the terms of trade. The policy reactions of each country are summarised, leading to the interesting conclusion that neither the initial conditions in 1979 nor the severity of the exogenous shocks from 1979 to 1982 are alone sufficient to predict which countries would suffer recessions and debt crises. Macroeconomic management, or the way the shocks were handled, is seen as a more powerful explanatory variable.

The 1980s (or the 'lost decade' in Latin America) witnessed a marked slow down in borrowings. Loss of creditworthiness, rather than higher costs of capital, explains this decline, which is well documented in Chapter 5. Some rather unconvincing regression suggest that slow growth was attributable to poor export performance; but the authors themselves note the equivocal nature of their findings.

The next five chapters (6 to 10) deal in turn with a standard diet of macroeconomic matters, including inflation, exchange-rate and trade policy, and fiscal and

monetary policies. In an attempt to retain the richness of the individual country experiences, the authors offer frequent sketches of an issue for each of the countries. These serve to remind us of the diversity of circumstances and caution against glib generalisations. But they will leave some readers needing to seek out the original country papers (listed in an Appendix) to go beyond the appetisers offered here.

The authors eschew simplistic regressions in favour of useful tabular summaries and accessible prose. Nowhere is this more evident than in the well-crafted discussion of the impacts of devaluation on growth rates. That this is from a chapter whose authorship is attributed to Max Corden will come as no surprise to those who have benefited from so many of his lucid pieces on trade and exchange rates over three or more decades.

Chapter 11 concludes that long-run economic growth is best served by stability in the implementation of macroeconomic policy, and attention to the quality as much as the quantity of public-sector investment.

In my judgment, Chapter 12 (on the political economy) would have been improved by a synopsis of the now extensive but diverse literature on the distributional consequences of stabilisation. I would have very much enjoyed an insightful summary by authors of this calibre. It was the first thing I looked for in the volume and my biggest disappointment. Perhaps more important, it might have enriched the discussion of the role of interest groups, and added insights into why food riots often meant that cuts in expenditure, *à la* IMF, were not implemented.

Chapter 13 ends the volume with a guide to good macroeconomic behaviour, and tackles the difficult question of the counterfactual: what could have been done differently? The key message is that policies matter. Economic performance was seen to depend much more on the policies adopted in response to shocks than on the nature or magnitude of the shocks themselves or on the type of political regime. No evidence is found to support the assertion that authoritarian regimes, freed from the need to be electorally sensitive, can adhere to firmer policies and achieve superior growth. The existing structure of an economy (itself a product of past policies) also governed its capacity to adjust.

The dicta for policy-makers, which form the capstone of the conclusions, are (predictably) those that prudent parents offer their departing children, or bankers offer their clients: stick to your budget, don't over-borrow, avoid sudden changes to your plan and save for a rainy day. Whether or not governments will pay any more heed than our children remains to be seen. If they don't, it will not be for lack of a balanced, well-documented and accessible evaluation of the recent economic history of developing countries. Its usefulness is enhanced by both subject and author indices, references collected at the back, and a (lamentably) small data appendix.

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