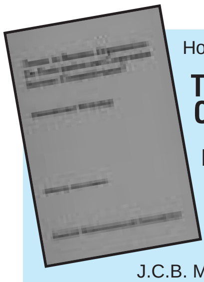
BOOKS



Horst Siebert (editor)

Trends in Business Organization

Do Participation and Cooperation Increase Competitiveness?

J.C.B. Mohr, Tübingen, 1995, viii + 292 pp., $65 (cloth).

Don't expect this book to answer unambiguously the question posed in the title—it won't. But what it will do is provide a most illuminating summary of the state of organizational theories pertaining to a number of related questions. How do incentives affect individual responses within an organization? Are some incentive structures better than others? What is corporate culture, and how does it affect competitiveness and corporate adaptation? Does ownership structure matter? How "portable" are organizational structures across countries? The answers to these questions, it turns out, also are equivocal, as might be anticipated considering the origin of the book.

Trends in Business Organization is a compilation of papers and commentary presented at a conference in Kiel on business organization held in 1994 and, as such, is directed more to an academic audience than to operating managers who might be looking for tips on designing their own organizational structures. Conference participants, including those offering only comments on the prepared papers, represented an international constellation of contributing scholars in the field, not a mix of scholars and practitioners. Still, although mildly technical here and there, the papers are reasonably accessible to nontechnicians seeking background on current academic thinking about business organizations. These readers can easily skim over the technical portions without seriously limiting their understanding of the papers' major thrusts and conclusions. For this reviewer, who is an economist but decidedly not an organizational theorist, the book offered a number of interesting insights that would, for example, have been helpful in preparing a just-completed International Finance Corporation study on international joint ventures.

One conclusion of this joint venture study is that these ventures tend to be characterized by unstable relationships, partly because the partners come from different national cultures but, just as important, because they usually represent quite dissimilar corporate cultures as well. In *Trends in Business Organization's* chapter on corporate culture, Edward Lazear concludes that new companies are likely to have weaker cultures than established firms, which—since companies with stronger cultures tend to be more successful—would suggest that life is likely to be difficult for a new joint venture, at least at the outset. But working against this tendency, to some extent, is his observation that smaller firms—which joint ventures usually are at the beginning—can develop stronger cultures than larger ones. For international joint ventures, therefore, it is possible that an early investment in developing a corporate culture different from that of either partner could pay solid dividends.

Thus, for anyone contemplating doing applied research involving settings where corporate behavior is an important factor, this book's compilation of papers could be very interesting. It is filled with suggestive nuggets of information coming from established figures in the study of business organization. For more academically inclined readers, the book offers competent reviews of the literature, along with a number of extensions of the state of the art.

Robert R. Miller

Francis A. Lees and K. Thomas Liaw

Foreign Participation in China's Banking and Securities Markets

Quorum Books, Westport, Connecticut, 1996, xiii + 189 pp., $57.95 (cloth).

Western companies attempting to do business with or in China find it a major challenge, not only because China is a vast, rapidly expanding market but also because of the different business and social climate. The combination of important cultural differences between Western countries and China and the latter's ongoing economic transition makes it hard for foreign companies to gain a foothold.

The need to address these difficulties more than justifies the publication of Lees and Liaw's book. The authors consider the opportunities for foreign participants in the evolving Chinese markets in banking, securities, infrastructure financing, and business investment. They analyze how government regulation and market organization affect foreign participants and devote special attention to the foreign exchange system, which affects almost all foreign participants. Each chapter covers a particular sector—such as banking, the foreign exchange system, stock markets, infrastructure finance, and foreign-owned enterprises—and analyzes the problems and issues at stake. The final chapter looks into the future and expresses confidence in the irreversibility of China's economic reform process. Accordingly, the authors are of the view that further innovations will be the order of the day. Hong Kong is considered as a main vehicle for China's further opening to the rest of the world in the near future.

Foreign Participation in China's Banking and Securities Markets is a useful source of information for would-be foreign participants in China's economy. Each chapter indicates the complexity of China's system. One of the main recommendations concerns the importance of getting involved in partnerships with local businesses to tackle this complexity more effectively.

Although the authors do not mention it explicitly, it seems to this reviewer that easy access to China has also been hindered by the gradual nature of its transition from plan to market. Gradualism has certainly added to the success of China's transition in general, but it cannot be denied that it has also added to the complexity of the system. The resort to dual systems (for example, the coexistence of free and controlled prices, exchange rates, and interest rates) and the use of intermediate control systems (with both plan and market characteristics) has certainly not created a transparent environment for the foreign participant.

Another theme that dominates the problems facing foreign participants is the lack of a legal framework. Business in China has no real tradition of being governed by a legal framework. The Chinese authorities have come to realize the importance of a legal framework for the smooth operation of a market economy, and since the early 1990s, laws have been drafted covering key parts of the economy. Getting acquainted with the culture of being ruled by law, however, will be a time-consuming process for domestic enterprises. In the meantime, coping with the lack of a "level playing field" will remain a major challenge for foreign participants. This critical aspect could have been brought out somewhat more forcefully in the book, for instance in a concluding chapter which reviewed the common themes of each of the preceding chapters. The wealth of information Lees and Liaw's book contains is spread out, and consequently the reader sometimes may not be able to see the wood for the trees.

Foreign Participation in China's Banking and Securities Markets is a victim of the recent acceleration in China's transition, particularly in banking and foreign exchange. Some parts of the book have already been overtaken by events, and preparation of a new edition is to be encouraged. An updated edition could also deal with some of the inaccuracies—not uncommon when dealing with a country as complex as China—and some of the contradictions and overlapping passages from which the book suffers.

Marc Quintyn

Ravi Ramamurti (editor)

Privatizing Monopolies

Lessons from the Telecommunications and Transport Sectors in Latin America

John Hopkins University Press, Baltimore, Maryland, 1996, vii + 401 pp, $55 (cloth).

During the 1990s, privatizing large monopolies became a standard component of economic adjustment programs in Latin America. This collection of 13 articles offers answers to three basic questions raised by this dramatic change: (i) *why* did countries suddenly privatize large firms with strong market power; (ii) *how* did governments overcome the barriers to privatization and manage to attract private investors, and (iii) *what* changes has privatization brought?

The detailed case studies of the privatization of airlines, roads, and telecommunication offer pragmatic answers. The authors, mainly business school professors and/or consultants, clearly target practitioners as well as academics. The studies provide background on the politics of privatization and other matters, such as the organizational, labor, and financial restructuring required; negotiation with stakeholders; incentives; and performance after privatization. The different experiences are impressively synthesized by the editor in his overview.

On the first question (*why privatize?*), the book shows that the main goals were to maximize fiscal gains, signal the government's commitment to change, and improve enterprise performance by encouraging competition, better management, and private financing of investment needs. On the second question *(how?),* the book highlights the crucial need for a strong personal commitment by political leaders and the benefits of centralizing decision making in the hands of an inner circle of committed privatizers. For *telecommunications,* extensive consultations with potential investors, identification of strategic investors, and explicit recognition of the need to offset risks by a temporary protection from competition were all required to attract investors. Even so, success was modest. For *airlines,* where competition was harder to limit and the growth potential more modest, a single investor was typically found. For *roads,* the chapter by W. M. Emmons III on Mexican toll roads explains why initial success depended on the creativity of the financing package.

Assessing the achievements was probably the most challenging task the authors had to face, since "fine tuning" of many of the privatizations is still taking place. For now, they found that the short-term fiscal and signaling objectives generally can be reached quickly if there is a strong political commitment and a minimum of preparation (even if more planning time yields more gains). But these gains come at the expense of efficiency goals. In *telecommunications,* there were strong gains in system expansion, cost control, and labor productivity, but there were problems with service quality and dissatisfaction with price increases. Privatized *airlines* (except for Aeromexico) faced more problems than privatized telecommunications firms. To some extent, this reflects excessive optimism about expected demand, excess capacity in the industry, and the pressure of competition—not only problems with the privatization process itself. For *roads,* José R. Gómez-Ibanez and José-Luis Guasch note that sustainability of private involvement will depend on the design of regulation.

The book suggests that reformers underestimated the importance of effective and predictable regulation to ensuring a fair distribution of the long-term gains of privatization among government, investors, and consumers. Too often regulation was designed to give incentives to invest but not necessarily for firms to be efficient. Generally, there was a need to renegotiate the privatization contracts, but no clear rules as to how to do it were in place. Moreover, regulatory institutions were not sufficiently competent or politically independent to ensure that further efficiency gains could be achieved and sustained.

Despite these problems, the authors support privatization, although they show that getting it wrong is easier than getting it right. Even so, potential sources of failure can often be remedied as long as the political commitment to the success of privatization remains strong and politicians understand the importance of regulation for the long-run sustainability of privatization.

Antonio Estache

T. Paul Schultz (editor)

Investment in Women's Human Capital

University of Chicago Press, 1995, 467 pp., $67 (cloth), $22.95 (paper).

Investment in Women's Human Capital is a collection of essays by various authors, including T. Paul Schultz, the editor, and Mark Rosenzweig, both of whom are pioneer researchers in human capital and productivity. The book covers different dimensions of women's human capital and its distribution, determinants, and consequences. Since human capital represents a significant and growing share of a nation's wealth, as well as a personal asset, investment in human capital is the most important step a society can take to promote economic development.

The book raises the issue of why investment in women's human capital lags behind that in men's and what role market forces play in creating this outcome. To understand why women generally possess less human capital than men, one must understand the gender differentiation in the returns to human capital and how families allocate resources for production and consumption. The main message of a large body of literature examining male-female differences in returns to human capital (basically in education) is that returns on investment in women's human capital are as high as, or even higher than, those in men's, yet families' investment in women is lower than that in men. Drawing on the experience of high-income countries, Schultz argues that a redistribution of family resources took place in favor of women in many of these countries in response to institutional changes both within and outside the family. Similar trends are observed in some developing countries, although allowances need to be made for their varying paces of economic development. Ester Boserup argues that existing economic models designed to find out which social and economic changes make such redistribution possible are not adequate; multidisciplinary research is needed to improve them.

Male-female wage differences partly contribute to the lower participation of women than men in the labor force. Observed wage differences are partly due to differences in human capital and job characteristics, but a large part of these wage differences is still unexplained. Andrew Foster and Mark Rosenzweig argue that lack of information makes employers less aware of the productivity of workers (such as women) who have less tenure in the labor market, which results in their being paid lower wages. Male-female wage differences are also a source of the greater incidence of poverty among women than among men.

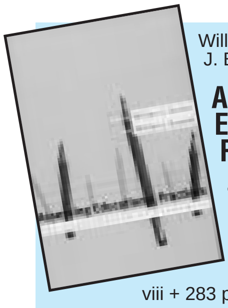
Women's wages may be lower than men's, but returns to education—even after correction for sample selection bias, migration, and choice of employment—are higher for women than for men. Yet schooling investment differs between males and females in, for example, Taiwan Province of China, Indonesia, and Côte d'Ivoire. Studies done for Indonesia and Côte d'Ivoire confirm that returns to schooling are not the sole determinant of parental investment in children's education. William Parish and Robert Willis consider the impact of birth order and the timing of marriage on human capital investments in children, noting that the secular growth of income did not hurt schooling investment in girls compared with boys.

Although adult health is an important form of human capital, household data from such countries as Bangladesh, Jamaica, Malaysia, and the United States indicate that although education and other household characteristics partially explain the gender gap in adult health, a substantial part of it remains unexplained by biological and behavioral factors. Although provision of health care matters in determining adult health, households' responses to the needs of men and women for health care also play a role. The chapter on Kenya by Germano Mwabu, Martha Ainsworth, and Andrew Nyamete shows that women are more responsive to the time and monetary costs of medical care than men are, but women use medical facilities provided by the government more frequently than men do.

Family preferences matter in male-female differences in human capital investment. Mark Rosenzweig's chapter on India shows that the marriages of sons and daughters and their migrations affect both financial transfers and loans made within households in response to income variation owing to weather and agricultural growing conditions. Technological change weakens the advantage of such traditional marriage-based risk pooling, but it does not change the traditional preference for boys. However, investment in women's human capital—notably education—increases families' preferences for daughters relative to sons.

Although *Investment in Women's Human Capital* raises many questions that go unanswered, it does not overemphasize the importance of collecting and analyzing gender-disaggregated data in improving our understanding or in influencing the role governments can play in promoting gender equality.

Shahid Khandker



William E. Becker and William J. Baumol (editors)

Assessing Educational Practices

The Contribution of Economics

MIT Press, Cambridge, Massachusetts, 1996, viii + 283 pp., $35 (cloth).

Following what has been described as the "human capital revolution in economic thought" (based on the work of T. W. Schultz and Gary Becker at the University of Chicago in the early 1960s), economists intruded into what had been largely the domain of educators, psychologists, and sociologists. The literature on the economics of education grew exponentially, both in terms of volume and sophistication. Naturally, the two groups reached a point where they were not talking to each other, in the sense that the economics of education literature might have used statistical and econometric techniques with which educators were not conversant.

Assessing Educational Practices purports to bridge this gap by introducing the nonspecialist to the research methods used by economists in studying education. Although the empirical part of the book is focused on the United States, the theoretical principles and results should be of interest to education policymakers in developing countries.

Of particular interest among the empirical chapters are the findings reported in Card and Krueger's chapter on the economic return to school quality—a highly debated topic in the economics of education literature. The authors find that a 10 percent increase in school expenditures (to pay for teachers' salaries and other educational inputs) is associated with a 1–2 percent increase in annual earnings for graduates in later life. This income gain easily makes up for the earlier increase in teaching costs.

Overall, the book succeeds in its purpose of removing some of the esoteric economic jargon commonly used in discussing key topics in education, thereby improving access to a kind of analysis that might otherwise have been missed by those working in education. Although some of the individual chapters inevitably tend to slip into technicalities, this book will be a very welcome addition to the libraries of practitioners and students who are concerned about a large range of education issues but have heretofore been intimidated by the economic jargon.

George Psacharopoulos

Hyung-Ki Kim, Michio Muramatsu, T. J. Pempel, and Kozo Yamamura (editors)

The Japanese Civil Service and Economic Development

Catalysts of Change

Oxford University Press, New York, 1995, xxi + 552 pp., $65 (cloth).

There is no question that the postwar performance of the Japanese economy (as well as its prewar performance following the Meiji restoration) has been remarkable. This has led to a mini-industry examining various aspects of the Japanese system for lessons to be learned and potentially applied elsewhere. This book focuses on the role played by Japan's civil service, and its interaction with other economic actors, in fostering Japan's development. The book is an outgrowth of work managed by the World Bank's Economic Development Institute and financed by the Japanese government under the Program for the Study of the Japanese Development Management Experience.

Although it is difficult, when considering a work of this nature, to derive uniformly held conclusions, the authors of the various papers included in the book tend to agree that Japan's civil service has, indeed, contributed positively to economic development. They note that the small size and competitive nature of the civil service has resulted in a strongly motivated and able bureaucracy. The civil service's power has generally been exercised informally, through its ability to cajole and bargain, rather than formally (although the degree of overt regulation in Japan remains notorious). The authors stress that the actions of the civil service have generally been congruent with, rather than designed to overcome, market forces, although, as the editors acknowledge, the "Japanese government has never been reluctant to 'soften' the immediate impact of market forces." Finally, one conclusion emerging from these contributions is that there is nothing unique about the Japanese experience that precludes other countries' replicating it.

Nevertheless, the authors recognize that the specific situations and problems currently confronting policymakers in Japan are significantly different in many respects from those their predecessors faced. The economy is finally emerging from its deepest and longest recession in the postwar period. Following the bursting of the asset price bubble of the late 1980s, the banking system has had to bear the burden of significant amounts of bad loans, which has required the authorities to use public funds to stabilize the situation. This action has been widely unpopular, and concerns about whether the concentration within the Ministry of Finance of responsibilities for banking supervision, securities regulation, budget preparation, and—to a lesser degree—monetary policy (since the Bank of Japan is not legally independent), with its attendant moral hazard, have resulted in calls for a dismantling or reorganization of the Ministry. Moreover, given the fact that many senior positions in the financial sector—including almost all senior positions among the failed *jusen* (housing finance companies)—are held by former Ministry of Finance personnel, the system of *amakudari* (literally, "descent from heaven," the practice of civil servants' retirement and subsequent employment in public corporations and the private sector) has come under intense attack. In addition, excessive regulation has kept domestic prices significantly higher than those abroad, which has led to increasing resentment and calls for reform. Thus, despite the positive past contributions of Japan's civil service to economic development, pressures for further reforms of government policies, including those relating to the civil service, remain intense.

Mark Lutz

Roger C. Riddell, Mark Robinson, and others

Non-Governmental Organizations and Rural Poverty Alleviation

Oxford University Press for the Overseas Development Institute, New York and Oxford, 1995, xiii + 303 pp., $65 (cloth).

Nongovernmental organizations (NGOs) have become major players in development assistance efforts during the 1980s and 1990s. Even conservative estimates indicate that there has been an explosion in the number of NGOs and the resources they represent. While "northern" NGOs located in the OECD countries have grown steadily, the greatest increase has occurred in developing countries. The growth of NGOs has been spurred by two developments. First, many of the northern NGOs have evolved into global operations that recruit and support local NGOs rather than execute all projects themselves. Second, a greater proportion of official development assistance has been channeled through NGOs, both northern and southern. By 1992, roughly 30 percent of total northern NGO incomes was provided by official donors, up from 1.5 percent in 1970.

NGOs have a wide range of objectives. *Non-Governmental Organizations and Rural Poverty Alleviation* assesses their contributions to rural poverty alleviation. This careful and balanced study, which was carried out by the Overseas Development Institute (London), focuses on 16 projects funded (although not necessarily executed) by British NGOs in four countries: Bangladesh, India, Uganda, and Zimbabwe.

The broad conclusion is that while the NGOs have generally performed better than might have been expected, their success has been at best partial. Most significantly, not one of the 16 projects studied succeeded very well in reaching the *poorest* in the communities in which the NGOs worked. The book points to a number of possible reasons.

First, it is not often well understood who the poor are. When NGOs try to identify the poor, they generally apply simple proxies, since carrying out detailed investigations into the circumstances of each potential beneficiary is not practical. Yet the poorest members of a community—those who are in ill health, without kinship ties, or chronically indebted—may show little observable differences from other poor people in terms of material assets.

Second, many NGOs strongly emphasize credit programs. While at least some NGOs make efforts to tailor their programs to provide small loans to persons having few or no financial assets, such efforts invariably entail particularly high administrative costs. In addition, the emphasis that many NGOs place on securing repayment and their increasingly common practice of lending at near-market interest rates imply that the poorest will not usually be well represented in the groups to which NGOs lend.

Third, NGOs often aim to support or foment social cohesion. In this context, many of them focus on creating groups with which to work. To ensure that the poorest are represented in the groups they form, NGOs have to make special efforts. Otherwise, group members may not be keen to include the poorest—particularly if members are required to apply jointly for loans. The increasing tendency of such groups to dissolve and reform—possibly in response to the growth of rival NGOs—also tends to exclude the poorest.

While this study is relatively modest in size and scope, it should be noted that very few such systematic assessments of NGO performance are currently available. This is puzzling—how have NGOs become so popular without the establishment of a firm empirical basis for determining whether they are successful or not? There are many reasons for the scarcity of systematic NGO evaluations. Most NGOs are small and operate under tight financial constraints. Staff are generally stretched to the limit, and it may be difficult for them to justify diverting scarce resources to carrying out baseline surveys and evaluations rather than direct interventions. Many NGOs are also reticent to make evaluations of their efforts public. As some NGOs step back from direct project execution and delegate such responsibilities to other NGOs, careful evaluations will become even more difficult to conduct. Finally, as official donors themselves channel more funds through NGOs, the former's interest in scrutinizing the allocation of these resources may diminish.

Although this book raises many provocative issues, it argues persuasively that abandonment of the NGO model would be a mistake. There are few alternative models of development assistance that clearly perform better. Rather, NGOs should improve their performance by adopting a deeper and more systematic approach to monitoring and evaluation. The lessons learned from such evaluations must be allowed to inform not only the decisions of the NGO carrying out the evaluation but also those of other NGOs.

Peter Lanjouw

Gilbert Etienne

Rural Change in South Asia

India, Pakistan, and Bangladesh

Vikas Publishing House, New Delhi, 1995, xiv + 352 pp., Rs. 395

South Asia has the greatest number of poor rural people on the planet. But in focusing on this fact, we often lose sight of the progress made there since 1947 in incomes, food production and consumption, the status of women and the poor, the provision of housing and clothing, and the overall level of rural welfare. The history of that progress, and of the accompanying social changes, is the subject of Gilbert Etienne's valuable book.

Rural Change in South Asia is the latest of Professor Etienne's books about the subcontinent. It presents an uncommon perspective, one that is not quantitative but that reveals the important elements of a great transformation. *Rural Change* recounts Etienne's travels throughout the subcontinent, commencing in 1952, and summarizes his findings based on repeat visits to farmers, laborers, townspeople, officials, and many others, complementing original research with a limited amount of secondary data. That *Rural Change* uses no quantitative techniques is, curiously, one of its strong points. It thoroughly disarms those critics of the Green Revolution in South Asia who pretend that more analytically rigorous methods obfuscate the human aspects of rural change.

Etienne's chief finding is that the Green Revolution has made a large improvement in the welfare of rural people and, through its effects on the price and supply of food and fiber, on the welfare of townspeople. The Green Revolution has had its strongest impact where irrigation is most prevalent, and its impact has been practically nonexistent where there is no irrigation. Much of the original impetus of the Green Revolution has been dissipated, however, because of the failure to sustain the growth of wheat and rice yields after the initial gains of the 1960s and 1970s. This failure, owing to the recent inability of research to develop better production technologies, does not negate the achievements of the Green Revolution but does explain why agricultural growth rates have fallen during the past 10–15 years. Green Revolution technologies can provide South Asian countries with significant additional growth potential, but they can realize it only by accelerating economic reform, in urban sectors as well as in agriculture. Etienne rightly concludes that rapid expansion in manufacturing is a key element in efforts to reform agriculture and to relieve acute rural poverty.

Professor Etienne notes some "danger signals." Resource pressure is worsening, despite progress in controlling population growth. Regional disparities antedating the Green Revolution and now exacerbated by it have not been adequately addressed by policy and are likely to get worse. Though women, the poor, and the lower castes now enjoy rights they could not have dreamed of forty years ago, they still do not have many important political and economic entitlements. Though remedies now exist for corruption, official malfeasance may be worsening where economic expansion is rapid and absolute amounts of resources subject to political interference increase.

Professor Etienne advocates more vigorous population control, especially in Pakistan; broader and truer political reform, leading to less authoritarian government; quicker irrigation development, notably in Bangladesh and West Bengal, where abundant groundwater is underexploited; faster economic reform in the nonrural economy, particularly privatization of the capital goods sector, to reduce rural production costs; more public investment in agriculture; and greater openness to international trade and other external influences.

Owing to its very broad coverage, the book is shallow in places, for example in treatment of public spending in rural areas. Etienne comments that a rising share of public spending goes to politically motivated antipoverty programs of questionable benefit while decrying the fall in public spending for agriculture. But his argument is only roughly sketched. Even if public expenditure for agriculture has contracted, that may be all to the good, since much past spending went for irrigation schemes and other rural works that were politically motivated and uneconomic. It is also surprising that *Rural Change* nowhere refers to the seminal work done by the International Crops Research Institute for the Semi-arid Tropics. But the book tells an important tale in a straightforward style and presents many sound recommendations for governments and their foreign partners.

John McIntire