BOOKS

Richard Layard and John Parker

The Coming Russian Boom

A Guide to New Markets and Politics

The Free Press, New York, 1996, xvii + 380 pp., $27.50/Can$37 (cloth).

Given this book's title, one might have expected a manual of "dos and don'ts" for business people and investors wishing to avail themselves of the opportunities being presented by a coming "boom" in Russia. In fact, while the authors do convey the kind of optimism typically found in how-to guides, their book is actually a highly readable and penetrating analysis of a wide range of issues bearing on the economic prospects of Russia. At the outset, they note that "pessimism has dominated Western comment on Russia and much of the comment in Russia itself. Yet generally the gloomy forecasts have proved false. Instead there has been progress on most fronts not in a tidy way, but usually by a process of two steps forward, one step back. The one step back is reported more than the two steps forward, consolidating the mood of gloom."

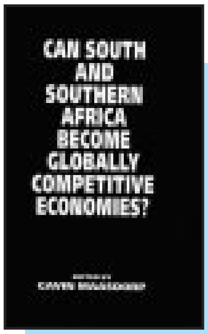
This volume generally succeeds in its purpose of being an antidote to this gloom. Perhaps its major contribution is to show that despite all the concerns that Russia's history of autocracy, serfdom, isolation, communism, and ambivalence about "Western" civilization would keep a market economy from taking root there, the actual experience of the past six years demonstrates that a large segment of the Russian population has adapted relatively quickly to the opportunities created by the economic reforms officially launched at the beginning of 1992. Therefore, the authors conclude, there is good reason to be optimistic.

The methodology employed by the authors is interesting. Sequentially, they raise 12 "basic questions," ranging from "Is Russia different?" to "Was there too much shock therapy?" to "Will Russia rebuild the empire?" As these questions suggest, the authors view their subject as having important economic, political, cultural, and geographic elements; and in each case, they draw on an impressive command of history, cross-country comparisons, and Russian literature, almost always concluding on an optimistic note. In this light, it is curious that their concluding section in which they present several political-economic scenarios that were evidently written in early 1996, prior to the reelection of President Yeltsin, may be too pessimistic. As the most likely scenario, they suggest "more of the same," which would be continued government from the center in the context of a broad-based coalition that muddles through. Economic performance would be characterized by annual inflation in the range of 30 to 150 percent and annual growth of 5 percent. This is a rather curious conclusion, since the evidence of the transition economies so far suggests that growth at this rate is not sustainable at the level of inflation Layard and Parker have assumed and, in any event, Russia has already done better—at least in terms of inflation, which is now running at an annual rate of around 15 percent.

The authors devote considerable space to discussing the future role of Russia's regions. Focusing on the very different reform experiences of Nizhny Novgorod and Ulyanovsk, they stress the importance of the proclivities and determination of local leaders (as opposed to, for example, the initial degree of reliance on traditional Soviet-style industry) in determining the pace of local reform. In discussing the adoption of the Russian stabilization program in late 1991 and early 1992, Layard and Parker could have placed greater emphasis on the difficulties that incautious policy announcements and lack of policy coordination among the Russian authorities caused. They suggest that, partly because of the problem created by the ruble area (which lacked the fully functioning institutions of a monetary union), the reform team simply accepted that monetary stabilization, which had occurred virtually overnight in Poland in 1990, would not take place in Russia before mid-1992. What is not said is that in December 1991 the government had already made the mistake of predicting a several-fold increase in prices when they were liberalized on January 2, 1992 and that there was virtually no coordination between Russia's government and central bank from the very outset and, consequently, no articulated and integrated financial program. Had the extremely fast-moving events permitted Russia's financial program to be more carefully designed and implemented from the start, much of the 250 percent rise in consumer prices in January 1992 alone, and the 2,500 percent inflation during 1992 as a whole, could have been avoided.

Layard and Parker frankly discuss the pervasive role of the Russian mafia (encouraged by a weak state and the sudden large increase in the number of property owners who lacked trust in one another and needed protection) and the need to reduce its influence by strengthening property rights, reducing regulation so as to provide fewer opportunities for corruption, and toughening law enforcement. On the issue of monopoly, the discussion is less satisfactory, since the authors tend to view it mainly as an issue of the relative size of enterprises; not enough attention is devoted to the power of local and regional monopolies in a vast country where communications and transport systems are still relatively underdeveloped. These are but a few of the issues with which the authors grapple and that—despite the weight of their unstinting optimism—make for a very provocative book.

Thomas A. Wolf



Gavin Maasdorp (editor)

Can South and Southern Africa Become Globally Competitive Economies?

St. Martin's Press, New York, 1996, xviii + 285 pp., $75 (cloth).

World trade and output, and especially the shares of developing countries in both of these, have grown very rapidly over the last two decades. The only exception has been sub-Saharan Africa. This book includes 23 papers, presented at a conference held in Durban in 1994, that address the causes of sub-Saharan Africa's poor economic performance and what can be done to improve it.

In the lead article, William Easterly presents cross-country evidence on the determinants of differential rates of growth and shows that Africa has been marginalized in the world economy. He concludes that bad policies explain most of the lower growth rates in Africa but argues that "neighborhood effects" also matter. Southeast Asian countries have done better than can be explained by good policies alone, and their having neighbors that have also adopted good policies has created positive externalities for them. In Africa, by contrast, Easterly finds negative neighborhood effects: bad collective policies have compounded the effects of bad individual country policies.

The rest of the volume complements these conclusions by addressing four subjects. The first of these focuses on the implications of regional integration in Africa; two of the four papers in this section examine the impact of economic integration with one large dominant country (South Africa). The following section discusses the marginalization of subgroups within Southern African countries, especially those disadvantaged by apartheid in South Africa and Namibia, and the problems of ethnic violence as experienced in Kwazulu-Natal in South Africa.

Subsequently, policies that might reverse the economic decline of sub-Saharan Africa are examined, together with the lessons countries in that region can learn from countries in the Far East and elsewhere. The topics are comprehensive and range from exchange rate and capital account management to industrial and technology policies. Finally, five papers discuss some of the specific characteristics of Southern Africa, principally those of South Africa. Topics include labor markets in South Africa and Zimbabwe, the extent of trade reforms in South Africa, and issues of health and productivity.

Most of the papers are good, and some are outstanding. But the collection does not take a strong position on whether Southern Africa can be successfully integrated into the global economy. It does a reasonable job of defining the issues that need to be addressed and identifies the types of policies the region needs to adopt to become competitive. Although it is a good handbook on key policy issues, the policy discussions are unfortunately not linked directly to the specific issues that face most of the countries in the region.

In some respects, this book may have been written a little too early. In 1994, the impacts of the profound political and economic changes that have been taking place in Southern Africa were not yet fully apparent, and more questions were being raised then than now about the commitment of most of the region's governments to making these changes.

In 1997, the situation in Southern Africa supports a significantly more optimistic view. Almost all the region's countries now have democratic governments. South Africa is back in the international fold. Mozambique is at peace, and the competitiveness of exports from the region's landlocked countries is increasing. Trade and foreign exchange regimes have been liberalized, and significant privatization programs have been undertaken. Foreign investments are increasing but so far have been restricted mainly to mining and tourism. Most important, the liberalization of agricultural marketing arrangements, whether they cover burley tobacco in Malawi or cashews in Mozambique, are leading to rapid supply responses. And for the first time, resources are being transferred to smallholders, thereby transforming rural economies.

Although the outlook for the region is brighter than when the Durban conference was held, the book still has considerable relevance and makes an important contribution to policy discussions of Southern Africa. The issues and winning policy solutions are still the same, and the lessons of experience are still relevant. So are some of the problems discussed in the book, such as lack of trained manpower and distorted labor policies in South Africa; the problems of integration of one large, more developed, and higher-wage economy with smaller, lower-wage ones; and the backlog of social and economic problems facing the subregion owing to a long history of stagnation and distortions.

Ataman Aksoy

Vijay Joshi and I.M.D. Little

India's Economic Reforms, 1991–2001

Clarendon Press, Oxford, United Kingdom, 1996,
xiii + 282 pp., $45 (cloth).

Vijay Joshi and Ian Little have come out with a sequel to their highly acclaimed book, *India: Macroeconomics and Political Economy, 1964–1991*. In this new book, they have evaluated India's economic reforms initiated in 1991. The main underlying thesis they articulated in their first book was that India's poor economic performance over the four decades before 1991 was due mainly to pervasive microeconomic distortions that led, despite India`s pursuit of fairly good macroeconomic policies, to an inefficient allocation of resources, which brought about severe fiscal imbalances.

In *India's Economic Reforms, 1991–2001*, the authors, after reviewing India's reforms during the last five years, conclude that the economy-wide distortions still prevail, though they have been considerably attenuated. They argue that, consequently, India will continue to run fiscal deficits, which will negate the effects of other good policies. Thus, India's reforms—although they represent a departure from the sterile policies of the past—are not good enough to ensure sustained growth.

Joshi and Little have explicitly stated their underlying model for India and other countries like it. Although this model is predominantly a neoclassical one, it differs from the standard model in some important respects. Recognizing that the old highly protectionist, highly controlled, and restrictive Indian development model failed to enable the country to achieve its primary objective of rapid growth in real income, the authors envisage a predominantly market economy in which the state regulates markets in instances where laissez faire may produce disorder or buyers are unable to judge the quality of goods and services being offered, in addition to providing the basic infrastructure such as a functional legal system and a stable currency.

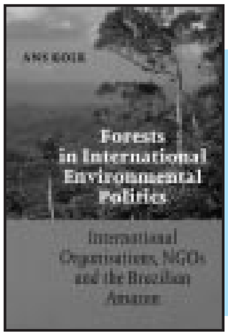
In a situation of market failure in which the private sector will not, or cannot, profitably provide goods to the poor, their provision by the state is justifiable. Joshi and Little take a somewhat ambivalent position on the provision of education, individual health care, and a safety net for the disadvantaged. They firmly believe that except for basic services, the provision of goods and services should be the exclusive concern of the private sector but that education is a special case. In view of technological change, they see no unqualified justification for state ownership of natural monopolies. Although they advocate an open economy, the authors caution that unrestricted foreign direct investment should not be allowed until India's trade regime is completely liberalized and that portfolio capital flows need to be regulated until the domestic banking system and the monetary system are completely reformed and restructured.

The authors' greatest disappointment is that India's fiscal policy has thus far been unable to remove some serious microeconomic distortions, which should have been a major plank of its reform program. Subsidies are still rampant; government expenditure is uncontrolled; public sector enterprises continue to be a drain on public resources; and user charges for electricity and irrigation are not collected. As a result, the fiscal deficit has hardly declined from the unsustainable level it reached before the reforms. The basic cause of India's chronic deficits seems to lie in its brand of political economy, which prefers doctrine to reason, and ideology to ideals. Until its political dynamic changes radically, the best India can hope for is that its economy will muddle through.

Though neoclassical in their stance, Joshi and Little have not lost sight of the human and humane side of Indian development. For them, stabilization is a necessary evil. They have shown, making an ingenious use of statistics, that although rural poverty increased during the 1991–92 stabilization period, structural reforms partially offset this adverse impact. When the structural reforms subsequently faltered, with both subsidies and procurement prices rising, both inflation and rural poverty increased.

India's Economic Reforms, 1991–2001 is a model of sound economic reasoning lucidly presented. It contains neither ex cathedra judgments nor sweeping generalizations. The authors stress the interactive relationship between economic growth and social development, and their assertions are supported by credible empirical evidence.

Deena Khatkhate



Ans Kolk

Forests in International Politics

International Organisations, NGOs and the Brazilian Amazon

International Books, Utrecht, Netherlands, 1996,
336 pp., $29.50 (paper).

As an environmental specialist in the World Bank who works on forest resources, one of the comments I often hear from operational managers in the institution is that although forest projects account for only a small fraction of Bank lending, they account for as much as 90 percent of the conflict associated with Bank operations. As a result, many Bank staff are wary of involvement with forest and biodiversity projects. Nevertheless, the management, conservation, and sustainable development of forest ecosystems remain high on the international policy agenda, and forests are an issue that few development institutions can afford to ignore.

Ans Kolk presents a timely and comprehensive analysis of the emergence of forests and forestry as a significant international policy issue. He provides a well-structured overview of the significance of forests to the international policy dialogue with an introduction on the political economy of international environmental policies, a discussion of the international context of deforestation in the Brazilian Amazon, and an outline of Brazilian responses to international interest in the Amazon. Kolk also provides a useful assessment of the environmental relevance of the World Bank. The book concludes with an evaluation of the dynamics of nongovernmental organization (NGO) mobilization on the rainforests and the relationship between NGOs and the World Bank Group on this and other key environmental issues.

A number of important lessons emerge from Kolk's analyses. The first concerns the complexity of the issues that surround forests and the environment. Superficially, forests have only relatively minor economic importance, accounting for a rather small percentage of both national and global GNP. The controversy over forests, however, can be explained by their global ecological importance (forests are a significant store of carbon and account for as much as 80 percent of the world's terrestrial biodiversity) and the broad range of stakeholders concerned with their conservation, exploitation, and management. Forests have been especially important for indigenous people, international organizations, NGOs, and nation-states because their utilization and management raise many issues, including resource access rights, North-South relations, the nature of development, national sovereignty, and the transfer of resources and technology.

Kolk traces how forests and the environment became a focus for bringing demands for restructuring international economic relations into the United Nations Conference on the Environment and Development (UNCED) negotiations. The South Center formulated a bargaining strategy for UNCED in which Southern environmental concessions would be made in exchange for Northern commitment on the transfer of technology and resources, increased access to Northern markets, debt reduction, and tighter regulation of multinational corporations in areas such as safety and the environment. However, while the South largely succeeded in closing ranks during UNCED and avoided unwanted environmental regulatory agreements on forests and other areas, no major concessions were obtained from the North. Indeed, Kolk suggests that the fact that deforestation is occurring mainly in the South facilitated Northern NGO action, because Northern governments could show their willingness to deal with environmental issues without having to bear many negative economic consequences. Kolk also shows how perceptions of this process have enabled nationalist and other interests in the South to heighten fears that the North was using the environment as a pretext to prevent the South from developing and to infringe on national sovereignty.

Kolk examines the Pilot Program for the Brazilian Amazon to demonstrate the conflicts and contradictions inherent in both national and international environmental politics. He demonstrates how difficult it is to translate good intentions concerning the conservation of forests into substantive outcomes in the field and how, as a result, significant delays in forest project implementation may normally be expected. Kolk outlines why the World Bank and other multilateral development banks have provided strategic targets for environmental action and traces the substantial changes in World Bank policies that have resulted in significant part from the increased NGO focus on forests and other environmental issues.

Kolk demonstrates a strong appreciation of the importance of country ownership for successful project performance in all areas, including the environment. A clear message conveyed by *Forests in International Politics* is that substantial progress will occur only when a strong consensus for action is developed at all levels, moving from the local to the national, and then to the international, level. Conservationists and development practitioners working with forests and forestry will have to make much greater efforts to develop strategic coalitions to support sustainable and conservation-oriented management of forest ecosystems. Reading Ans Kolk's book will help readers begin to develop an understanding of the complexity of the issues involved.

David Cassells

We welcome your comments

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