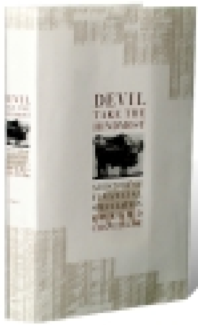


Edward Chancellor

Devil Take the Hindmost

A History of Financial Speculation

Farrar, Straus & Giroux, New York, 1999, xiv + 386 pp., $25/Can$39.95 (cloth).

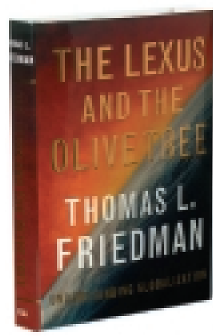
EDWARD CHANCELLOR has written a detailed history of financial speculation and the excesses that surround it. In fact, much of what he describes is actually financial fraud, market manipulation, and material excess, rather than speculation. He vividly depicts episodes from the seventeenth century to the present, setting them in their contemporary social and political contexts. Portraits of key characters in the various episodes aptly illustrate the main themes. The portraits in Chancellor's accounts of early speculative booms are particularly entertaining. In comparison, the characters in later episodes, such as the development of the U.S. junk bond market and the collapse of the Long-Term Capital Management (LTCM) hedge fund, lack color and sometimes come off as caricatures.

Chancellor is highly critical of some financial practices and concepts, and not entirely without reason. Nonetheless, in some instances he goes too far, leaving the reader without a credible alternative. For example, he writes that "the discount method of valuation is the most speculative method of valuing stocks since it relies entirely on estimates of future earnings, which remain uncertain." Stocks are claims on future cash flows. It is unclear to me how one can value stocks without reference to what makes them valuable. If Chancellor has a better (less speculative?) alternative in mind, though, he doesn't share it with the reader. In similar fashion, he excoriates the modern theory of efficient markets, but offers no alternative. He does not mention the recent advances in behavioral finance, which would support his position.

In any case, Chancellor does not shy away from unorthodox views—from a hypothesis that the Japanese authorities have intentionally kept property prices high to encourage saving to the idea that high capital gains taxes may encourage speculation. Some readers may also take issue with his opinion that speculative capital flows to emerging markets have yielded no net benefits to those markets, or may disagree with his comparison of the private rescue of LTCM to "crony capitalism" in emerging markets. There are also a few signs that Chancellor hasn't always done his homework carefully. For example, he claims that hedge fund managers do not suffer losses, which must be news to the managers of LTCM; he misses the key role of weak market infrastructure in the 1987 stock market collapse; and he suggests that by entering currency swaps, Japanese companies "were actually paid to borrow the money to finance their speculations," but fails to make the connection to exchange rate risk.

Despite these shortcomings, I found the book entertaining and lively reading even when I disagreed with the author's interpretations. Chancellor provides a rich backdrop for today's financial events, establishing a foundation for the premise that modern-day cycles of euphoria and pessimism are as old as the markets themselves. I recommend the book to readers of financial history, although I encourage them to apply the modern financial practice of "due diligence"—weighing the facts and reaching an independent judgment—before buying Chancellor's conclusions.

Charles Kramer



Thomas L. Friedman

The Lexus and the Olive Tree

Farrar Straus Giroux, New York, 1999, xix + 394 pp., $27.50 (cloth).

THE CONCEPT of globalization sprang suddenly upon the world. It is widely discussed and equally widely misunderstood. In Friedman's analysis, it is not a passing phenomenon that can be ignored or reversed, as some would have it, but rather the central principle of the post–cold war world. Using the vivid analogy of the Lexus and the olive tree, he illustrates the tensions that can be created between the new wave of globalism and the old social pressures that it confronts.

In 1992, while on assignment for the *New York Times*, Friedman visited the Lexus factory south of Tokyo and marveled at the robots that assembled the cars with minimal human supervision. Later, on the bullet train to Tokyo, he read about the Middle East conflict and the age-old feuds about who owned the rights to which particular patch of land and which olive trees. Olive trees are important, he writes; "they represent everything that roots us, anchors us, identifies us, and locates us in this world. . . . At worst, though, when taken to excess, an obsession with our olive trees leads us to forge identities, bonds, and communities based on the exclusion of others."

As Friedman explains, globalization involves the inexorable integration of markets, nation-states, and technologies to an unprecedented degree, enabling individuals, corporations, and nations to reach around the world farther, faster, and more cheaply than ever before. While, at first glance, globalization may seem to be mainly about

American hegemony or the Coca-Colonization of the world, it is—fortunately—far more than that. Friedman sees globalization as being driven by what he terms the "electronic herd," the anonymous international traders of stocks, bonds, and currencies. While this trend offers unimaginable opportunities for those who take the risks, it can also result in cultural deprivation and environmental degradation, as in the agricultural development of Brazil's Pantanal wetlands. At its best, globalization can bring with it a democratization of international financial transactions, information flows, and political decision making that can only be healthy.

While Friedman leaves the reader in no doubt as to where he stands on globalization, he does not minimize the dangers inherent in an overhasty rush toward reform. The challenge facing the world is to find the proper balance between the forces of globalization—the Lexus—and more traditional impulses—the olive tree.

Friedman's analysis provides a superb introduction to his topic—the equivalent of a Globalization 101 for the general reader—although the professional economist may find some of his arguments overly simplistic. His career as an international correspondent gave him unrivaled access to information at every level. His writing is always vivid and topical, ranging with confidence from the origins of the East Asian financial crisis, to the collapse of the Russian ruble, to the controversy over the North American Free Trade Agreement (NAFTA).

A good journalist, Friedman illustrates his narrative with illuminating examples, including his possibly questionable statement that no two nations with McDonald's restaurants have fought each other since the restaurants opened in both. At times, these examples may become a little wearisome, and in places the book could have benefited from greater concision, but it is never dull and Friedman's insights are often penetrating.

Ian S. McDonald

Muhammad Yunus

Banker to the Poor

Micro-Lending and the Battle Against World Poverty

Public Affairs, New York, 1999, ix + 258 pp., $24, £18.50, Can$35 (cloth).

IT HAS ALWAYS struck me as odd that credit is considered a good thing, has positive connotations, is a "hurrah" word, whereas debt is considered a bad thing, has negative connotations, is a "boo" word. Professor Muhammad Yunus, the founder and managing director of the Grameen Bank in Bangladesh, has even gone so far as to call credit a human right. Yet debt and credit are inevitably the same. Would anyone advocate imposing more debt on poor people (whether small farmers, microentrepreneurs, or rural women) as part of a strategy to eradicate poverty? The enthusiastic advocates of credit sometimes forget that loans at fixed interest rates present risks to the borrowers, including the risk of being unable to repay the loan. Small farmers living near subsistence level, for example, are notoriously, and rightly, risk averse. Credit can increase their vulnerability, whereas lower interest rates will discourage saving.

For people at the lowest income levels, food and health are the top priorities. Without better nutrition, they are unable to work. As income rises, credit becomes more important. It allows people to receive training, buy inputs, and finance working capital. At a slightly higher income level, training is a top priority. Yunus, who strongly opposes requiring training as a condition for credit, maintains that none of his borrowers needed training. However, I have observed a project in which the poor underwent training in the hope of obtaining credit afterward, but later often found the credit to be unnecessary. With a knowledge of simple bookkeeping and cost accounting, they were able to increase the profits of their microenterprises enough to dispense with credit.

Yunus—a man of vision, practical ability, and drive—has written a charming and often moving autobiography about how he came to be one of the most celebrated antipoverty campaigners of our era. He started the Grameen Bank with a personal loan of $27 to 42 poor people in his village. The loan freed them from indebtedness to moneylenders and middlemen. The bank lends small sums, mainly to poor rural women, who use it in enterprises that will improve their children's welfare—for example, to build fish ponds or buy dairy cows and rice-husking machines. People learn to help themselves. The Grameen Bank uses peer pressure in small groups to encourage repayments, and its repayment record is spectacular. In comparison, big borrowers are notorious for not repaying their loans.

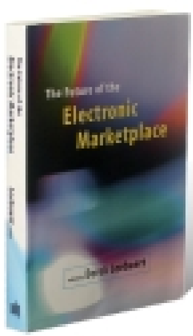
The Grameen Bank, a nongovernmental organization (NGO), is frequently and rightly upheld as a wonderful model for lifting the poor out of poverty and has been replicated around the world, including in many rich countries. Its purpose is to transfer the burden of screening and enforcement from the lending institution to borrowers' groups. The advantage of this is that costs are reduced; a disadvantage is that small groups of borrowers are less able than credit institutions to bear risks. But the model reduces moral hazard (the possibility that individuals or institutions will change their behavior in unanticipated ways as the result of a contract or agreement; for example, a bank whose deposits are insured against loss may make riskier loans and investments) and adverse selection (a problem that arises when information known to one party to a contract is not known to the other party, causing the latter to incur major costs; for example, individuals who have the poorest health are more likely to buy health insurance), which may override the higher social costs of the wrong party's bearing the risks.

A less widely known aspect of the Grameen Bank is that it has difficulty finding enough workers to process the loans; that turnover is high, with more workers leaving than entering; that the credit extended represents only a tiny proportion of total credit (the bank has served only 1.4 million people out of Bangladesh's population of 120 million, or about 1 percent; the credit provided by NGOs accounts for only 0.6 percent of total lending); and, most striking of all, that some borrowers make repayments by borrowing from village usurers.

An NGO like the Grameen Bank cannot replace governments or commercial credit. Instead, its function should be to work with the government, to exert political pressure on it, to change its policies, and to pioneer models that can be replicated. It is sometimes claimed that NGOs work without and against the government. In fact, the Grameen Bank relies heavily on the government and, in 1990, received 60 percent of its capital from the Bangladesh government.

It would have been interesting if Yunus had explained in greater detail the obstacles the Grameen Bank faces in expanding its work. Is it recruitment of village workers? Is it finance? Are there managerial constraints? Is there an absence of desire to expand? But this is a splendid book, which ends with a hopeful message: "We have created a slavery-free world, a smallpox-free world, an apartheid-free world. Creating a poverty-free world would be greater than all these accomplishments . . . . This would be a world that we could all be proud to live in."

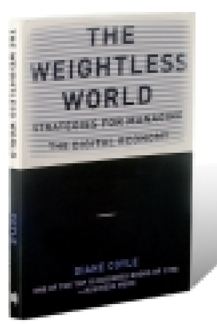
Paul Streeten



Derek Leebaert (editor)

The Future of the Electronic Marketplace

MIT Press, Cambridge, Massachusetts, 1998, vii + 383 pp., $38.50 (cloth), $17.50 (paper).



Diane Coyle

The Weightless World

Strategies for Managing the Digital Economy

MIT Press, Cambridge, Massachusetts, 1997, xxii + 250 pp., $25 (cloth), $13.95 (paper).

THE ESSAYS in Derek Leebaert's book portray major economic and social developments resulting from the advent of computers and high-quality telecommunications. With the ability of computers to process at high speed the elements of demand and supply, time and distance have become irrelevant for many transactions—making it unnecessary for participants to meet in the same physical space. This development represents almost perfect market conditions: entry is hard to deny, and the potential for free and fast information exchange is great.

The electronic marketplace raises many questions about the future of retailing and manufacturing and about a number of traditional economic arrangements. Some of the issues are so complex—for example, the valuation of Internet stocks—that experts are having difficulty finding answers. Entrepreneurship, in one sense, has become easier—anyone can open a "virtual" store, with little reference to such traditional elements as space, inventory, and rent. Such a store, however, may not sell any goods or services, and its revenues may derive from advertisers seeking access to an ever-increasing number of participants. Thus, assessing the viability of an enterprise, its true costs, the relevance of its pricing decisions, and its profitability has become more complicated.

The electronic marketplace has also leveled the playing field for buyers and sellers, with size and location playing smaller roles in determining market power. Developing countries stand to benefit enormously from the new technology—for example, gaining access to a wide range of goods and services that had not previously been available to them without having to develop new industries at home.

Much of the impetus for electronic markets in the industrial world is driven by socioeconomic factors: people are spending more time at work, the number of dual-income families is rising, the population is aging, and the fear of crime is increasing. Many consumers are finding it easier and more convenient to compare products and make purchases on the Internet than to trudge from megastore to megastore or flip the pages of catalogs.

The electronic marketplace may also have a large impact on the world of work. The workplace itself is changing; it no longer represents a single location and may not even have a discrete physical space. The main requirement for work transactions—

many of which consist of exchanges of information—is the ability to connect, and traditional methods of doing this are being rethought.

Electronic devices have speeded up many processes, created new ones, and increased interdependence, but not all of these changes are for the better; in some areas, once simple tasks have become more complicated. Hopes that these inventions would lead to a brighter future have not quite materialized; in most computerized societies, people have not gained more leisure time. The essays suggest, however, that this goal is closer to becoming a reality. In 2008, it will be interesting to reread this book and check our progress.

In her book, Diane Coyle examines recent technological changes with a very different and thought-provoking slant. In particular, she relates economic changes to social developments and argues for a major remaking of government. The modern "weightless economy"—in which technology has made the same value of physical output lighter, and developed economies have shifted away from physical output to services—raises interesting issues. One is that economics is dealing more with "dematerialized" output (for example, software codes, the creative content of a movie, or Internet services). A related issue is the concept of "infinite expansibility," where one person's use of, say, a software program does not prevent another person's simultaneous use of it. This, Coyle notes, is the inverse of scarcity, on which so much of economics is founded. How do we make sense of a world where scarcity no longer dictates value and, thus, price? A third issue, Coyle says, is that individuals are bearing greater risks in economic development and are feeling anxious, uncertain, and insecure. They need to be better equipped to handle risks and to take responsibility for their own prosperity.

The subsequent analysis reviews trends in employment and explores the definition of "real" jobs as well as the failure of welfare schemes. Coyle concludes that the modern world—in which national governments mediate between two strong forces: localization (individuals trying to wrest more control over their lives) and globalization (corporations pushing their activities across national borders)—requires a new form of government. While the flow of ideas does not logically lead to this conclusion, the discussion is relevant and interesting.

I would take issue with the notion that the growing helplessness of the individual is new. It is a by-product of industrialization and the division of labor and represents the loss that accompanies the shift from simple economic transactions to complex exchanges. As such arrangements have evolved, individuals have become more dependent on others, experiencing feelings of helplessness as they recognize their inability to correct problems in transactions through individual action.

Admittedly, information technology has done much to make the location of economic activity irrelevant; connectivity is paramount. What is also vital is that the transfer of information is instantaneous and requires no more than access to a transmitter (satellite, phone, or cable line using current technology). These developments can bring many previously marginal members of society—and thus additional fruitful economic activity—into the marketplace, simply because of their willingness to engage in activity. However, economic concentration is still going ahead—driven now by the presence of information technology skills.

However, the author does not adequately develop her thesis about how the Internet can transform many traditional transactions and the marketplace. The speed of its development and the directions it has taken are surprising to many, even those making the trends. The Internet is flexible and, in principle, universally available. It can empower knowledgeable individuals and open entrepreneurial opportunities for the underemployed and unemployed if they are reasonably literate. Recognizing this potential, several industrial country governments have begun to earmark resources for computers and improved telecommunications in schools and institutions in areas with high unemployment. In developing countries, some commentators and policymakers are pushing telecommunications in national policy agendas to increase employment opportunities. These are signs of change in the meaning of welfare provision and seem consistent with Coyle's view that the new role for government is that of enabler rather than doer.

Dennis Jones

Norman K. Humphreys

Historical Dictionary of the International Monetary Fund, Second Edition

Scarecrow Press, Lanham, Maryland, and London, 1999, xl + 330 pp., $60 (cloth).

THIS BOOK is number 17 in the Scarecrow Press's series Historical Dictionaries of International Organizations, which debuted in 1993 with a volume on the European Community and now also covers, among others, the World Bank, the United Nations, and European and inter-American organizations. In this second edition of the volume on the IMF, the author's objective was to show the "new IMF," not only to explain the financial facilities the IMF has put in place since the first edition appeared but also to give examples of how the

IMF's policies and programs are being applied and what the results have been.

Humphreys, who was Chief Editor at the IMF from 1972 to 1986, achieves his objectives extremely well. The more than fifty new entries—which reveal the IMF's current emphasis on financial crises and their management—cover the Asian and Mexican crises, moral hazard, hedge funds, and the IMF's Special Data Dissemination Standard, all of which are explained in depth. Other entries offer lucid, detailed accounts of the organization's recent relations with countries from different geographic regions. A number of entries show the IMF's growing concern with poverty reduction, good governance, the environment, social policies, and the situation of the heavily indebted poor countries. Still other entries describe the changing organizational structure both of the IMF and of closely connected financial groups, for example, the Group of Eight, the Group of Twenty-Two, the Currency Stabilization Fund, and the World Trade Organization. The IMF's increased transparency is noted in the entry describing Public Information Notices (IMF Executive Board assessments of members' economic prospects and policies issued following IMF consultations with its members). It is an even more impressive measure of IMF openness, however, that Humphreys was able to do all his research for this book on the IMF's website (http:// www.imf.org).

To accommodate these new entries without adding unduly to the length of the volume, Humphreys has dropped some two dozen entries describing the IMF's operational departments, a change that results in a book with more emphasis on economics than the first edition. He has also thoroughly revised and updated the definitions of some seventy terms, the chronology, the statistical appendix, and the bibliography, as well as the introduction, which presents a good overview of the IMF's history in 35 pages. It is difficult to keep up with the dynamic IMF. For example, in the last few months, among other changes, the Interim Committee has been converted into the International Monetary and Financial Committee, and the Enhanced Structural Adjustment Facility has become the Poverty Reduction and Growth Facility.

The book is a valuable reference work, well worth its price. It is useful for general readers, government officials worldwide, and officials in other international institutions and nongovernmental organizations who are now working more closely with IMF officials. It certainly belongs in libraries. The IMF owes Norman Humphreys a debt of gratitude for this impressive achievement in his retirement years.

Margaret Garritsen de Vries

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