

Ian M. D. Little

Economic Development: Theory, Policy, and International Relations

Basic Books, Inc., New York, 1982, xi + 452 pp., \$22.95.

Covering a span of nearly four decades, Little has produced a masterly overview of the recent history of development economics—both theory and practice—and international economic relations. He has, in addition, proposed a number of reforms of international economic arrangements.

Somewhat simplified, his main theses are that: (1) there has been a failure of the detailed and ambitious planning efforts in developing countries, which have generally been associated with large investments in industry under heavy protection; (2) developing countries that have relied more on market forces and export-oriented strategies have fared far better; and (3) the preoccupation with the "New International Economic Order" by developing countries is misguided; they should instead work for a more liberal international trade environment, in which they would participate actively and forgo special privileges. These views will not come as a surprise to those who have followed Little's previous writings.

The author begins with a useful discussion of "Basic Notions," including the meaning of development and such characterizations as "neoclassical" and "structuralist" visions of economics, noting that many analyses and policy prescriptions contain elements of both. With his terms defined, Little proceeds to an excellent discussion of the theoretical developments and debates, as well as practice in the field, during 1943–60. This includes a compact discussion of pre-World War II planning, its evolution, and the extension of this concept to developing countries in the 1950s. Considerable attention is given to India's efforts at planning, which is described as having been "non-Western." Little views the developing countries' planning efforts quite negatively, emphasizing the bias that resulted from equating development with industrialization and noting the consequent neglect of agriculture and rural development (except for land reform) in the 1950s. Reflecting the consensus of the 1970s, the author argues that "growth or equity, or both would have been improved if the terms of trade for agriculture had been better... or if more public expenditure and attention had been diverted

to agriculture and less to industry." "Misguided" industrialization is a recurrent theme in Little's analysis.

The planning emphasis of the 1950s is, with considerable justification, termed "topsy-turvy." The focus had been on *comprehensive* planning, when project level planning was crucial and largely neglected. Little examines some of the important theoretical contributions to the development of project-level planning techniques and investment analysis in the context of the growing recognition of some of the undesirable consequences of the import substitution policies that most developing countries followed in the 1950s. He marshals impressive documentation of the literature on trade regimes and of studies casting doubt on the so-called "export pessimism," and emphasizes the by now familiar argument of the crucial role of export incentives. The structuralist preconceptions of the 1950s were, Little concludes, considerably weakened in the ensuing decade, and among the book's many witty observations are broadsides at the "two-gap" and "surplus labor" notions.

After a brief consideration of the "new topics" of the 1960s—agriculture, technology and capital-labor substitutability, the transnational corporations, human resource development, population, and capital markets—Little embarks on a more extensive discussion of the questions that engaged the 1970s.

He challenges the "radical view" that essentially attacked growth where the poor were excluded from its benefits. Little argues that "where growth has been rapid, the poorest have benefited" and that "... one should worry about relative inequality only to the extent that it causes absolute poverty." His emphasis on absolute poverty is well placed, but it is difficult to accept the implied cavalier attitude toward income distribution.

Little does not find much substance in the emotion-laden debate over "dependency and underdevelopment." In trade, resource transfers, and technology, he maintains that dependence is not automatic, unless monopoly or oligopoly exists—something not generally the case. Sovereign governments can control their own fates; it is the "corruptibility of the host," the author suggests, "that is the worm in the bud." This is, of course, a simplistic view of the world and Little, remarkably, avoids mention of any of the well-known incidents of extra-economic activity by transnational corporations in host

countries. The author goes on to dismiss the view that a linkage exists between capitalism and dependence. Quite appropriately, he notes that "the hallowed capitalist-socialist dichotomy is a bad guide as to where fundamental changes in the socioeconomic order are required."

In a brief treatment of the structure of developing countries and structural change, Little focuses on a few features that he had found "underemphasized or even misrepresented." This chapter is, on the whole, rather disappointing precisely because of its brevity. Perhaps the most interesting feature is a set of calculations that show that between 1960 and 1978, relative agricultural productivity, already low, declined for the low-income developing countries, increased somewhat for the middle-income developing countries, and more than doubled for the developed countries.

Little grapples in greater detail with both the old order and the "New International Economic Order" (NIEO). The author's two chapters on the old order—the trade regime (1945–73) and the monetary system (1944–73)—are the most succinct analyses of the issues I have seen. Little holds strong views on the trade regime—lamenting the failure of the Havana Conference to reach agreement on an International Trade Organization, based on free trade and a non-preferential world system. He dismisses as inconsequential, in terms of economic benefits, the Generalized System of Preferences, and is sharply critical of the developing countries for remaining highly protectionist and resisting reciprocity.

With respect to the monetary system, the author notes that by 1963 many economists recognized that the basis of reserve creation had to be changed, otherwise the system was bound to fail. The subsequent creation of the SDR, however, came too late to have much impact. On the International Monetary Fund as lender, Little shares the widely held view that the institution was not intended to resolve crises that stem from a long period of policy bias against exporting and of excessive borrowing to support import substitution.

The author exhibits little patience for NIEO and the events of 1973–80. He finds essentially no new content in the demands of developing countries: "Virtually everything had been on the agenda since UNCTAD I, and most of it since the 1940s. All that was new was the increased stridency, together

perhaps with the increased use of the General Assembly as a forum for economic demands." The latter he attributes mainly to the success of the Organization of Petroleum Exporting Countries in raising the oil prices.

The Program of Action of NIEO, Little contends, asks for "aid with everything." On debt burden and rescheduling, he maintains, rather irritably, that "countries complain if they cannot borrow and complain of the burden when they have borrowed." Somewhat prematurely, as recent events have shown, he also dismisses the alarmist views on developing countries' debt.

Little organizes his own recommendations around trade, money and credit, and aid. On trade he stresses the absence of any economic justification for the highly restrictive trade regimes of most developing countries and cautions that the politicization of trade is likely to benefit the strong, and very few developing countries are in that position. He favors the creation of an International Trade Organization to be based around GATT (not UNCTAD), which would also cover services, agriculture, and export controls. Though developing countries are counseled to abandon the NIEO principle of "aid with everything," the author calls for associating "aid and trade in a suitable forum" and urges an early fulfillment of the official development

assistance (ODA) target. Little suggests that developing countries might find it worthwhile to forgo their trade preferences, if some way could be found to bind developed countries to the existing or even a higher ODA target. Unfortunately, this proposal is almost as utopian as those he dismisses on the same grounds.

On money and credit matters, issues are much less clear-cut. Little ruefully observes that the "unfortunate fact that developed countries cannot handle their affairs in a manner that is best for developing countries (and themselves) has to be accepted." The idea of a supranational money is floated, but dismissed because it would require an effective central bank, which in turn would require a world government! Little is unsympathetic toward the blanket demand for weaker Fund conditionality, but begs the question when he notes that "IMF conditions should be appropriate to the conditions and possibilities, both economic and political, of the borrower; but it may often be hard to agree as to what is appropriate." He more wisely counsels on the issue of greater voice for the developing countries, warning that "too much voice can be counterproductive" and lead to important decisions being taken outside the institution. More broadly, in the dialogue between developed and developing countries, Little correctly stresses the need for reduced confrontation.

Under his aid proposals, Little argues for more grants and urges "untying" (to remove a particular form of protectionism). Surveillance and project versus program assistance are, he feels, the main issues. Surveillance has to exist and, while greater program aid is needed for adjustment, the author opposes "indiscriminate de-projectization" on welfare grounds.

If the book falls short of expectations, it is mainly in its proposed reforms of international economic arrangements. Many of Little's proposals have previously been offered elsewhere (for example, by the Brandt Commission). Inasmuch as several of them, such as the untying of aid and the linking of ODA with trade reform, involve deep-rooted political considerations, it is difficult to be sanguine about their acceptability, particularly in the present international economic climate. Moreover, Little's recommendations fail to reflect the concern over the magnitude of the external debt of developing countries and the high real rates of interest, as well as the 30-year low in commodity prices. The search for feasible solutions will, no doubt, continue. In the meantime, one need not agree with Little on every issue to partake of the sheer delight and stimulation afforded by a serious reading of this major work on development economics.

Javad Khalilzadeh-Shirazi

Christopher Freeman

The Economics of Industrial Innovation (Second Edition)

MIT Press, Cambridge, MA, USA, 1982, viii + 250 pp., \$25

J. Davidson Frame

International Business and Global Technology

Lexington Books, Lexington, MA, USA, 1982, xiv + 206 pp., \$24.95

R. C. Mascarenhas

Technology Transfer and Development: India's Hindustan Machine Tools Company

Westview Press, Boulder, CO, USA, 1982, xv + 270 pp., \$19.50.

These three books on technology and technical change focus on different aspects of the subject, ranging from a perceptive examination of the process of industrial innovation in developed countries to a study of the acquisition and absorption of technology by a firm in a developing country.

Freeman's book is a considerably revised and updated version of his classic on indus-

trial innovation first published in 1974. The first two parts—the rise of science-related technology, and innovation and the theory of the firm—have been updated with more recent statistical information and new examples from more current research. The third part—innovation and government—has been completely rewritten to reflect further research by the author and others, and new policy developments in the United States and the United Kingdom.

Frame's book is a general introduction to the interdependence between technological advances and transnational commercial relations, written for both business students and scientists/engineers. It compares science and technology activities and policies in developed and developing countries. It emphasizes the transfer of technology, with a special focus on multinational corporations, but also includes chapters on Third World demands for developed country technology, and on military research and development and arms transfers.

Mascarenhas' book is an excellent case study of Hindustan Machine Tools, a premier

public sector enterprise in India that started producing machine tools in 1956 and successfully diversified into watches, tractors, lamps, and printing machines. He focuses on the strategies and problems in acquiring, absorbing, and adapting different types of technologies from countries and companies that have different approaches to technology transfer. He also covers the development of indigenous substitutes for imported components and the local generation of some product technology. Finally, he examines how the enterprise's leaders responded to challenges, and how the organization of Hindustan Machine Tools itself had to evolve with changing circumstances, including its relationships with the government agencies to which it was accountable and whose support it had to enlist. The book persuasively makes the point that a successful transfer of technology "should lie within the overall strategy of an enterprise and should include the choice of technology to translate that strategy and an organization with which to implement it."

Carl Dahlman

Paul W. MacAvoy

Crude Oil Prices: As Determined by OPEC and Market Fundamentals

Ballinger Publishing Co., Cambridge, MA, USA, 1982, xv + 224 pp., \$24.50.

Some "popular beliefs" about the Organization of Petroleum Exporting Countries (OPEC) and its effectiveness in raising and maintaining oil prices are examined in this book. In a succinct analysis presented with the help of a computerized econometric model, the book concludes that market fundamentals and random political events—not

OPEC—determined the crude oil price increases of the past ten years. The price shocks of 1973/74 and 1979/80 are attributed to severe supply shortages that resulted from events such as the 1973 embargo, the Iranian revolution, and the Iran-Iraq war that would have occurred without OPEC action. OPEC's influence on oil prices is seen as limited to sustaining such price increases for a year or two longer than they would have lasted under a free market system.

The current weakening of the market is also anticipated in the book: oil prices in 1981–83 are predicted to fall to near their

1979 level, in real terms. But a modest increase in real prices, as determined by market fundamentals, is projected for the rest of the decade.

Although certain aspects of supply and demand are not rigorously treated, this book meets the oil market analysts' need for a sound handbook useful for forecasting price developments and understanding the implications of varying assumptions and parameters. Appendix A is a printout of the Fortran source program of the model that can be run in any medium-sized computer.

Adrian Lambertini

Other books received

Samuel Paul

Managing Development Programs: The Lessons of Success

Westview Press, Boulder, CO, USA, 1982, xvi + 247 pp., \$20 (paper).

This book concentrates on the contribution of management and administrative planning to the success of six public sector programs from as many developing countries. The positive results emerging from these schemes, which included the National Dairy Development Program in India and the Public Health Program of China, are linked to managerial innovativeness, clearly defined goals, phased program implementation, organizational autonomy, the use of network structures, and the creation of simple information systems that provided rapid feedback. While those administering rural development programs will find this book especially useful, economists would also profit by viewing the world from Dr. Paul's angle.

Sylviane Guillaumont Jeanneney

Pour la politique monétaire: Défense d'une mal aimée

Presses universitaires de France, Paris, 1982, 292 pp., F 145.

This is a historical analysis (or rather a defense) of the postwar theoretical "battle" between Keynesians and monetarists; the title and subtitle make clear the author's sympathies. In places, the narrative reads as though it were describing an important religious schism. The pat classification of economic theory between the two schools is also reflected in the analysis, as when the author compares the relative efficacy of monetary and fiscal policy under different conditions. In fact, the differences between the two schools are not that stark. There is much emphasis on the importance of economic theory in policymaking; however, in the determination of economic policy, governments are guided by a host of considerations other than economic "doctrine," to use the author's term. Nevertheless, this is a valuable *tour d'horizon* of the literature, particularly for French readers.

Ralf Dahrendorf (editor)

Europe's Economy in Crisis

Holmes and Meier, New York, NY, USA, 1982, xii + 274 pp., \$24.95.

This collection of articles by 11 eminent European personalities offers both analysis of and solutions to the deepening European malaise of unemployment and stagnation. From the different national perspectives emerge common threads: the burdens imposed by an expanding public sector resistant to change, high wages, reduced competitiveness, and the legacy of inflation and anti-inflationary policies. Virtually no contributor suggests the traditional response of boosting demand, but unemployment has worsened since these articles were written, and inflation has moderated further. All favor reducing government activity, restraining wages, and rebuilding investor confidence. There is only limited analysis, however, of the distortions produced by exchange rate movements in recent years, and their impact on the spread of protectionist tendencies in Europe and elsewhere.

George J. Stigler

The Economist as Preacher and Other Essays

University of Chicago Press, Chicago, 1982, vii + 259 pp., \$20 (cloth).

The title of this book is catchy, but curious for two reasons: first, as Professor Stigler states on the very first page, economists have done very little preaching; second, it does not do justice to the wide range of eminently readable, erudite, and entertaining essays on a variety of topics. The author specifies the central concern of economists with the use of efficiency as the criterion for the desirable economic policy but notes that the meager success of economists in changing policies considered inefficient is because more than narrow efficiency was involved in almost every case. Elsewhere he writes: "My central thesis is that economists exert a minor and scarcely detectable influence on the societies in which they live." In which case one is tempted to ask: why all this attention on economists? Altogether a lucid and enjoyable selection.

Jacques Bourrinet and Maurice Flory

L'Ordre Alimentaire Mondial

Economica, Paris, France, 1982, 332 pp., F 85.

The 17 papers contained in this book do not pretend to provide a comprehensive analysis of food issues nor do they offer dogmatic answers. They reflect the views of their authors, who are researchers of various disciplines, and national and international civil servants. The contributions, several of which are of high quality, are grouped around two broad themes: the world food challenge—the persistence of hunger when it is technically feasible to produce enough food to feed everyone—and the potential for an International Food Order to meet it.

Vernon W. Ruttan

Agricultural Research Policy

University of Minnesota Press, Minneapolis, MN, USA, 1982, xiv + 369 pp., \$32.50 (cloth), \$13.95 (paper).

How can an agricultural research system be organized and managed to maximize the returns to the human and financial resources invested? The book's answer is based mainly on experience in the United States and in international agricultural research institutions, but it is broadly relevant to developing countries. The chapters on research resource allocation and the regulation of seed production and marketing systems are especially interesting.

M. Gersowitz, C. F. Diaz-Alejandro, G. Ranis, and M. R. Rosenzweig (editors)

The Theory and Experience of Economic Development; Essays in Honour of Sir Arthur Lewis

Allen and Unwin, Inc. Winchester, MA, USA, 1982, ix + 403 pp., \$37.50 (cloth).

Sir Arthur's many contributions to economics are reviewed, refined, and extended in this stimulating collection of articles by a group of leading economists.

Other books received (continued)

Robert L. Ayres, **Banking on the Poor**, MIT Press, Cambridge, MA, USA, 1983, xiv + 282 pp., \$17.50.

Arthur S. Banks (series editor), **Economic Handbook of the World: 1982**, McGraw-Hill Book Co., New York, 1982, viii + 696 pp., \$44.95.

David Bigman and Teizo Taya, **Exchange Rate and Trade Instability: Causes, Consequences, and Remedies**, Ballinger Publishing Co., Cambridge, MA, USA, xxvii + 340 pp., \$39.95.

R. B. Johnston, **The Economics of the Euro-Market: History, Theory and Policy**, St. Martin's Press, New York, 1982, x + 321 pp., \$30.

Jean Lecerf, **Creer L'Emploi: La Micro-Economie**, Le Hameau Editeur, Paris, 215 pp., F 69.

Neil McMullen, **The Newly Industrializing Countries: Adjusting to Success**, British-North American Committee, Washington, DC, 1982, xii + 124 pp., \$7 (£3.50).

James Plummer (editor), **Energy Vulnerability**, Ballinger, Cambridge, MA, USA, 1982, xviii + 458 pp., \$37.50.

Emmanuel N. Roussakis (editor), **International Banking: Principles and Practices**, Praeger, New York, 1983, xviii + 528 pp., \$29.95.

Claude Rucz, **Le Conseil Economique et Social de l'O.N.U. et La Cooperation Pour Le Developpement**, Economica, Paris, xii + 501 pp., F 125.

W. W. Shaner, P. F. Philipp, and W. R. Schmehl (editors), **Farming Systems Research and Development: Guidelines for Developing Countries**, Westview Press, Boulder, CO, USA, 1982, xviii + 414 pp., \$25 (cloth), \$18.95 (paper).

W. W. Shaner, P. F. Philipp, and W. R. Schmehl (editors), **Readings in Farming Systems Research and Development**, Westview Press, Boulder, CO, USA, 1982, xiv + 175 pp., \$19 (cloth).

Letters

Arms for the needy?

Your article, "Economic impact of defense expenditures" by Shuja Nawaz in the March edition of *Finance & Development*, is the first treatment I have seen of this important subject in *F&D*, I hope it means that you will continue to explore it. Through the balanced, careful marshalling of the pros and cons of the relationships, and through its appearance in *F&D*, the article should make a major contribution to debate on these questions.

While I have not yet seen the recent Taylor paper which the article cited, my impression is that the subject has in the

past suffered from a lack of professional attention and in-depth research. It has probably also suffered from a too-narrow view of development, as evidenced in the Benoit study. The significance for development in the broad sense may be considerably greater than the relatively small share of the total economic product that military expenditures represent.

I hope interest in these questions will also stimulate IMF research leadership in the field. It could have important consequences for us all.

Ruth Sivard, Washington, DC
(Author, *World Military and Social Expenditures*, 1982)

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