Books

Marc A. Miles

Beyond Monetarism

Finding the Road to Stable Money

Basic Books, New York, 1984, xv + 270 pp., $16.95.

George Macesich

The Politics of Monetarism

Rowman & Allanheld, Totowa, NJ, USA, 1984, viii + 158 pp., $26.50 (cloth), $14.50 (paper).

In October 1979, the U.S. Federal Reserve Board shifted the focus of its policy, placing greater emphasis on preannounced quantitative targets for monetary aggregates. This date is often seen now as the beginning of a "monetarist" experiment, even though acclaimed monetarists have frequently disassociated themselves from the policies of the Federal Reserve. New books by Marc Miles and George Macesich are among the latest contributions to a stream of literature that this policy shift has generated.

Miles opens his study by reviewing the various criticisms of monetarism that have appeared in the literature, including the difficulties in testing the causal relationship between money and economic activity, the impact of offshore financial markets and financial innovations on the conduct of monetary policy, and the problem associated with the definition of money in an open economy. A reader not acquainted with developments in monetary economics will certainly find this section very useful. Miles then discusses what he regards as the failure of the Federal Reserve's monetarist stance. He argues that nearly five years of monetarism have not succeeded in eradicating inflationary expectations, the main evidence being the high interest rates that have prevailed since 1980. Not many economists, however, would endorse this interpretation of recent interest rate developments.

As an alternative to the current policy, Miles advances a proposal for a new monetary regime that, unlike monetarism, would ensure lasting price stability. A central bank, the author argues, should stabilize both the price of a commodity basket traded in financial future markets and a long-term interest rate. Under such a price rule policy, the monetary authorities' commitment to price stability would be clear-cut, and, therefore, always credible. In addition, unpredictable shifts in the demand for money would automatically be offset by changes in the quantity of money supplied, without affecting prices or interest rates. Regrettably, the proposal is stated as a self-evident truth and the author provides neither a sound theoretical framework nor solid empirical evidence to support it.

The word monetarism is perhaps the only thing that Macesich's and Miles' books share. Macesich proposes to "provide a systematic interpretation of money within the framework of political economy." Whatever expectations this sentence induces, I am afraid the reader will be disappointed. The greater part of the book simply repeats well-known arguments that have been at the core of the monetarist-Keynesian controversy for the last 30 years. Macesich explains how monetarists and Keynesians differ in their views about the determinants of inflation; the slope of the Phillips curve; the viability of discretionary monetary policies; the efficacy of fiscal and income policies for macroeconomic stabilization; and the viability of money growth rules. On the whole, this compares unfavorably with existing surveys of the monetarist-Keynesian controversies, such as those of Johnson (1970), Lucas (1980), and Tobin (1980). Likewise, the concise history of economic thought (from Cantillon to U.S. President Ronald Reagan's supply-side economics) that Macesich provides is of little value—too concise for scholars and too inaccessible for other readers. In his final chapter, however, the author addresses the core of his subject—discussing alternative monetary regimes and evaluating the historical experiences with them. While this is by far the most interesting part of the book, its 25 pages are, unfortunately, probably not sufficient to gratify the reader.

Alessandro Penati

F.M. Scherer

Innovation and Growth

Schumpeterian Perspectives

MIT Press, Cambridge, MA, USA, 1984, x + 297 pp., $35.

The basic theme of this collection of reprinted papers ought to be of special interest to development economists: ". . . technological change has had, and will continue to have," Scherer asserts, "much more of an impact on material well-being than the niceties of static resource allocation to which microeconomists devote most of their attention." In pursuing this theme, each paper attempts to test hypotheses derived from three Schumpeterian propositions: technological innovation provides dynamics to capitalist economies through "creative destruction"; economic growth has primarily resulted from technological progress; and the factors most conducive to technological innovation are the expectation of monopolistic quasi-rents and favorable market structures. The rigor with which these hypotheses are formulated and the persistence with which they are explored—in econometric models or empirical case studies—is a particular virtue of the analyses.

The book is most successful in utilizing case studies to test theoretical propositions. The essay on the development of the steam engine is delightful. There are also studies on innovation in the ready-to-eat cereals industry, the effects of compulsory licensing on innovation in selected industries, and relationships between the size of the firm and the level of innovative output. The mixture of theory, history, and factual data illuminates the rationale for the behavior of firms and industries and the results of their innovation. Less successful are the hypotheses explored within the framework of econometric models. The assumptions these make are almost necessarily unreal, not just abstract, and too much is subsumed under *ceteris paribus*. Even in these cases, however, the reader will be led to consider additional formulations that are worthy of study.

Special mention should be given to the work on the technology matrix (a concept attributed to Schmookler), which shows the flow of innovations from those industries that originate them (the sources) to those that benefit from them (the users). Research, development, and engineering activities create innovations, but the industries of origin are not necessarily the major beneficiaries. The results of innovation are available to many users and the adoption of innovations can raise productivity in the using industries. One finding of the analysis is the very heavy dependence of most economic sectors on innovations originating in relatively few manufacturing industries (e.g., capital goods). The results of this work indicate the potential importance of identifying and supporting those originating industries that are a key to productivity growth and economic progress.

Frederick T. Moore

Robert Stobaugh and Louis T. Wells, Jr. (editors)

Technology Crossing Borders

The Choice, Transfer, and Management of International Technology

Harvard Business School Press, Boston, 1984, x + 329 pp., $29.50.

Drawing on a set of shared views on the behavior of firms, this book reflects the researchers' association with a pragmatic business school rather than a theoretical economics department. They assume that management attention is a scarce resource that should be allocated where the returns are greatest; that technology is chosen, transferred, and managed in imperfect markets; that firms differ in how they choose to compete; and that the structure of the market, a firm's position in it, and different institutional environments—such as government regulations and financing possibilities—affect choices and decisions on technology.

The first group of these studies examines how managers in foreign and local firms choose technologies to be used in developing countries. Although the older material may be familiar to some, the order of the studies nicely plots the evolution of thought and research at the Harvard Business School and demonstrates that each subsequent study has generally built on and extended the findings of its predecessors. Most of these studies show that the nature and degree of competition faced by a manager is a critical variable in the choice of technology.

A recent study by Amsalem shows that another barrier to the selection of an optimal technique is a manager's ignorance of the full range of available techniques elsewhere. It also finds that even if managers were to choose the best technology at prevailing factor prices, a more labor-intensive technology would generally be a better choice from the point of view of the country when appropriate shadow prices are used. The book's only study on state-owned firms finds that the choice of technology in these firms is based more on bureaucratic process than on economic criteria, and the critical element is often the speed with which the project can be implemented or the influence of external aid and financial sources.

The middle section examines how multinational enterprises decide on the channels through which they transfer technology (why licensing, for instance, might be chosen over direct investment) and how that choice affects the recipient firm or country. Perhaps most surprising, coming from a business school, is a study of joint ventures and technology transfer in Iran that suggests that firms with higher foreign ownership and control impose higher costs on the host country in terms of lower domestic content in final products, lower share of indigenous management, and higher prices on imported equipment, raw materials, components, and technology as compared to their less foreign controlled counterparts. The study also suggests, however, that greater foreign ownership and control is associated with greater manufacturing efficiency, although the evidence for this is weaker.

The last section examines how multinational enterprises manage their relationships with overseas affiliates. This segment includes a systematic study of research and development investments and an examination of factors determining the locus of influence between headquarters and local management over manufacturing decisions.

This useful and highly readable collection should increase understanding of how firms make technology choices and how multinational enterprises make management decisions about technology transfer and foreign affiliates. The last two sections will be particularly valuable for policymakers and others who want a closer inside view of how multinational firms make decisions that affect technology flows to developing countries.

Carl J. Dahlman

Robert Chambers

Rural Development

Putting the Last First

Longman, London, 1983, 246 pp., $4 (paper).

Over the last decade, the literature on rural development has given increasing emphasis to poverty issues rather than to the organizational aspects that tended to dominate much of the earlier discussion on this topic. With rural poor accounting for a majority of the population in most developing countries, a proper understanding of their condition is obviously important when policies and programs for broad-based national economic development are being formulated.

This is easier said than done, however. Rural poverty is less visible than urban poverty. People in cities are usually better organized and more politically active than their rural counterparts. Visiting journalists, researchers, government officials, and representatives from international agencies tend to spend most of their time in cities. Visits to the countryside are more infrequent and when they are made, it is often during periods when conditions are most favorable to such travel—for instance, other than during rainy seasons and usually when the full extent of rural poverty is not easily observed.

With wide experience from sub-Saharan Africa and South Asia, Robert Chambers, a frequent and highly respected writer on rural development, has focused his new book on the many biases that work against an understanding of the dimensions of rural poverty. Decision makers and researchers tend to prefer, he argues, the more traditional "first" concepts, favoring large scale over small scale, modern technology over indigenous knowledge, urban over rural, "hard" sciences over "soft," and the quantifiable over the nonquantifiable. The author wants a better balance between these concepts and recommends that in order to achieve this, we may often have to put the "last" first.

This very readable book provides a wealth of references to studies and observations by others. Contrary to some social scientists who find rural poverty so discouraging that corrective action seems futile, Robert Chambers derides such "fatalism" and spells out why he believes concrete action to alleviate rural poverty is possible. While one may wish Mr. Chambers had treated these action issues at greater length, he has written a very worthwhile and stimulating book. All those interested in agriculture and rural development, as well as national policymakers and others who formulate or provide assistance to plans and programs for economic development, should read it.

Leif E. Christoffersen

Milton J. Esman and Norman T. Uphoff

Local Organizations

Intermediaries In Rural Development

Cornell University Press, Ithaca, NY, USA, 1984, 391 pp., $35.

This excellent contribution to the subject of rural development sees local organizations as the third and neglected corner of a government/private/local organizations triangle. The authors note the quite high failure rate of local organizations and part of the book is concerned with a statistical analysis of factors contributing to failure and success. Clearly there are enormous problems associated with directions of causation, scaling of attributes, and extrapolation of findings from 150 nonrandom case studies to the entire range of local organizations. But the authors are refreshingly honest, even to the extent of calling on outside referees to comment on their approach.

In any case the book does not, by any means, stand or fall on its statistical analysis. A great deal of wisdom is distilled from references to the literature and from the authors' own field observations. The analysis suggests that the most successful local organizations are those that are best able to manage their resources, particularly their financial resources. Low correlations between performance and physical environment were found.

The serious reader may first want to skim through this book for the flavor and then delve more deeply into the creative thinking that marks its discussion of particular problems of local organizations. The authors avoid the hands-off attitude, so prevalent currently, that argues that local organizations would be fine, emerging where needed, if only governments would leave them alone. Their findings suggest that governments, and donors through governments, can help local organizations, particularly with technical assistance and training, and that, in any case, local organizations are unavoidably sociopolitical groupings and a political dimension is inevitable.

Some criticism is voiced of the "engineering" approach to project design of international donor agencies. This approach, which entails large projects, detailed design, and, too often, inflexible management working to an implementation schedule, is felt to be particularly inappropriate to projects involving local organizations, where exceptional flexibility is vital. The training and visit system of extension work comes in for some criticism as well. There is a suggestion that contact farmers are generally not linked to a group and their influence with other farmers may therefore tend to be weak.

To the reader who is less of a specialist, parts of the book may be a trifle heavy. The long word is often preferred over the short. It may not be long before a dictionary of rural development terms is required for the uninitiated. While it is probably unfair to ask that a book covering quite complex issues and statistical relationships in social science be easily accessible to a layman, it is still a little sad that the fully literate leader of a small farmer development group in Nepal would have to put this book down with a puzzled smile. But most of us are guilty in this respect.

Ridley Nelson

Andrew J. Pierre (editor)

Unemployment and Growth in the Western Economies

Council on Foreign Relations, New York, 1984, x + 142 pp., $5.95.

High unemployment is probably the most important problem currently facing Western industrial economies. In addition to its direct human and economic costs, it is destructive of both domestic and international political cohesion. This book examines the unemployment situation in the United States and Europe from the perspective of a concern for the future of the Western political alliance.

In four excellent essays, James Tobin, Raymond Barre, Marina v.N. Whitman, and Shirley Williams compare and contrast employment developments on both sides of the Atlantic. They go beyond a dry recitation of statistics, however, and offer specific proposals to deal with unemployment. While there is a certain amount of agreement among the contributors on the fundamental causes of the problem, their policy prescriptions reflect important differences of opinion. These differences chiefly concern the extent to which present unemployment is "structural" or "classical" rather than "Keynesian"—that is, the extent to which strong economic growth would not, in and of itself, be sufficient to put the jobless back to work. While recent experience indicates that U.S. employment is highly responsive to an expanding economy, there is little confidence that this will be the case in Europe.

James Tobin argues most strongly that present unemployment is a result of deficient aggregate demand and that structural labor market policies are likely to lead to only marginal improvements. He advocates expansion, particularly in Germany and Japan, and suggests the international coordination of monetary and fiscal policies to stimulate national growth. He would minimize the inflationary risks of such policies by establishing incentives and guidelines to moderate wage and price decisions.

Although the other authors also see a substantial part of the unemployment problem as resulting from deficient demand, they ascribe greater importance to structural impediments to expanding employment, and to difficulties in applying macroeconomic solutions. Raymond Barre argues that the European economies have exhibited less flexibility than the United States in recent years and therefore have been less successful in creating job opportunities. In Barre's view, European labor has been insufficiently mobile, unemployment compensation too generous, investment inadequate, and increases in unit labor costs detrimental to competitiveness. He recommends restraining increases in wage costs and devoting efforts to improving the functioning of labor markets and strengthening the competitiveness of firms.

Marina Whitman contends that faster economic growth would help to overcome structural rigidities by relieving the budget constraint on employment programs and encouraging more rapid productivity gains. However, she also sees a need for wage moderation to restore the competitiveness of certain basic industries. To be successful in the long run, structural policies should aim less at preserving existing jobs and more at increasing the flexibility of labor markets. Shirley Williams points out that the United States and Japan have been quick to exploit new technologies, which she regards as the key to future job opportunities. Employment prospects in Europe could be improved, Williams suggests, by enhancing the dissemination of technological knowlege and by expanding technical education, as well as through job sharing, flexible retirement, and a reduction in working hours.

James E. Blalock

Rich Kronish and Kenneth S. Mericle (editors)

The Political Economy of the Latin American Motor Vehicle Industry

MIT Press, Cambridge, MA, USA, 1984, xvi + 314 pp., $30 (cloth).

Once the growth potential of light industries is close to fully exploited, developing countries have no choice but to set up policies to increase capital investment in the industrial sector. Many middle-income countries have been drawn in this way toward the automotive industry: it can directly meet growing domestic demand, provide a profusion of linkages whose effects are quickly felt throughout the economy, quicken the tempo of technological assimilation, and, after the industry has matured, become an important source of exports.

The Brazilian, Argentine, and Mexican automobile industries, whose experience fills much of this book, have been in the business for several decades now and account for close to 90 percent of all cars produced in Latin America. In Brazil 12 percent of the industrial output originated in the automotive sector during the mid-1970s; the figure was 10 percent in Argentina and only a little lower in Mexico over the same period. As a leading sector *par excellence*, it exerted a significant direct and indirect influence on domestic development trends and more recently on the export performance.

The papers included in this volume, aside from charting the history of automobile production, describe in detail the strategy each government pursued in persuading transnational companies to establish production facilities. While there were differences in the degree to which local content requirements were imposed and income concentration promoted to enlarge the market for cars, each of the countries used a combination of fiscal incentives, import controls, and repatriation privileges to push the transnational companies into steadily expanding their operations, even though this led to many uneconomically sized plants.

Governments were also deeply involved in the management of labor relations between the companies and their workers, which is the second major concern of this book. Labor militancy strongly influenced costs and the willingness of transnational companies to invest; when unions, as in Argentina, adopted a tough stance under the Peronist regime, the industry stagnated. Because governments in Mexico and Brazil were more effective in curbing unionization and the coalescence of labor power, the car industry in these countries was less hamstrung and hence quicker at exploiting export markets in the 1970s.

By and large, the authors are successful in showing the costs of what they describe as "dependent development," in terms of scale economies sacrificed, a concentration of income distribution, a curtailment of workers' rights, and numerous concessions to the transnational companies. Perhaps such costs are unavoidable, given that the transnational companies control technology and global markets, but it is the merit of this volume that it documents for other nations the nature and extent of these costs.

Shahid Yusuf

Sanjaya Lall et. al.

The New Multinationals

The Spread of Third World Enterprises

John Wiley, New York, 1983, x + 268 pp., $29.95.

This collection of individually authored studies on the nature and experience of foreign direct investments by India, Hong Kong, Argentina, and Brazil includes an introductory analytical framework and a concluding synthesis by Sanjaya Lall, and covers the country and sector destination, the determinants, and the results of this outward foreign investment. The studies reveal that the bulk of these investments were made in other developing countries, though the investments did differ depending upon the home country's or territory's structural characteristics, degree of industrialization, and trade policies. In some cases the book's interpretations and conclusions vary from those of other current research on the emergence of Third World multinationals, but the main thrust of these differences is that the more that is learned about this complex and dynamic phenomenon, the harder it is to generalize about its causes, advantages, and future course.

Nikolai Kondratieff

The Long Wave Cycle

Richardson and Snyder, New York, 1984, ii + 138 pp., $30.

Most people, including policymakers, are so preoccupied with grappling with day-to-day problems that they are rarely able to pay attention to longer-term developments, let alone the very long-term pattern of such changes. Keynes's famous "in the long run we are all dead" has become a cliché, but longer-term economic fluctuations have for many years been the subject of study and speculation. Recently, in the wake of the problems that have beset most economies in the past decade, some have wondered whether we were not, indeed, in a period of long-term economic decline. For these people, and for economists in general, the reissue of this classic is welcome. Originally published in 1928, this new translation from the Russian by Guy Daniels is clear, elegant, and well presented. All students of economics come across the "Kondratieff Cycle" at some point in their textbooks; the interested now have the benefit of the complete original thesis in an excellent translation.

Mathew J. Betz, Pat McGowan, and Rolf T. Wigand (editors)

Appropriate Technology

Choice and Development

Duke Press Policy Studies, Durham, NC, USA, 1984, xi + 164 pp., $32.50.

Originating in an interdisciplinary graduate seminar on technology in development, this volume discusses a number of issues, including why appropriate technologies "either have been ignored or, in many cases, have not worked in one application after being successful in another." Five case studies on the adoption of technologies close the work and it is in this section that the interdisciplinary character of the seminar comes through most clearly, with sociopolitical factors often emphasized more than economic aspects. A primer, suitable for those coming to the subject for the first time.

Adda Guecioueur (editor)

The Problems of Arab Economic Development and Integration

Westview Press, Boulder, CO, USA, 1984, xvi + 223 pp., $22.

Consisting of papers presented at a symposium at Yarmouk University, Jordan, in November 1981 and summaries of the discussion there, this book examines the issue of Arab economic integration in agriculture, industry, finance, and transfer of technology (research and development). Also included is a review of the contribution of the European Community to Arab development and integration (the "Euro-Arab dialogue") and a discussion of the obstacles that Arab economic integration faces. While the book, in the editor's words, proposes to show that "... economic integration constitutes the only way to self-maintained, introverted Arab economic and social development," the reader may conclude that such "introverted" development is extremely unlikely. As the editor also notes, "the political will to cooperate has been negligible" and the Arab countries have "opted for 'market integration' through trade liberalization without harmonizing their economic policies and without undertaking the required structural changes." The papers are uneven in scope, depth, and analytical sophistication, but the average standard compares favorably with available literature on the subject.

Martin L. Weitzman

The Share Economy

Conquering Stagflation

Harvard University Press, Cambridge, MA, USA, 1984, vi + 167 pp., $15.

For the industrial countries the past ten years have been marked by inflation, unemployment, and slow growth. The often simultaneous occurrence of these conditions, stagflation, has confounded policymakers and economists alike. This breezy, bold, and well-written book declares that by changing one of the key features of the market economy, namely, the system of labor remuneration, we would be rid of stagflation and would instead be blessed with a state of permanent full employment with competitive remuneration, no inflation, improved working conditions, and the many social and economic benefits that flow from such a happy state. The key to all this would be to tie labor remuneration to the firm's performance, namely, a share system. Such a system already exists, to a degree, in Japan and here and there in other industrial countries, but for all the many benefits of the share system to be realized, it would have to be adopted on a much broader scale. And how can this be achieved? Essentially through a program of national education, a skillful use of the tax system, and some government help. Whether Weitzman's visionary scheme can bestow all the benefits he claims—let alone whether his scheme can be adopted—is open to argument, but this small book, addressed to the general reader, does provide food for thought.

Michael Stewart

The Age of Interdependence

Economic Policy in a Shrinking World

MIT Press, Cambridge, MA, USA, 1984, ix +192 pp., $15.

A political economist's view of growing international economic interdependence, this book is critical of policymaking in the major countries, which he believes to be based largely on perceptions of domestic needs. The author also sees a deflationary bias in national policies that creates a similar trend in the global economy. To reduce the economic and social costs of this bias in OECD countries—costs that, according to him, include huge unemployment and long-term environmental damage caused by short-term energy and economic policies—he advocates greater coordination of national economic policies and longer-term structural adjustment. The latter, he feels, will also pull the developing countries out of their current difficulties.