Richard Portes and Alexander K. Swoboda

## Threats to International Financial Stability

Cambridge University Press, Cambridge, UK, 1987, xviii + 307 pp. $42.50.

W.M. Scammel

## Stability of the International Monetary System

Rowman and Littlefield, Totowa, NJ, USA, May 1987, viii + 162 pp., $29.50 (cloth), $11.95 (paper).

Robert D. Hormats

## Reforming the International Monetary System

### From Roosevelt to Reagan

Foreign Policy Association, New York, NY, 1987, 79pp., $4.

In turbulent times, there is a tendency to scrutinize the international financial and monetary system and to devise ways of tinkering with it in the hope of salvation, even though the behavior of the policymakers should really be the prime focus of attention. An ideal system is one that promotes efficiency in international monetary and financial relations *and* is able to withstand shocks and innovations. The Bretton Woods system, operating in a less complex world, provided a stable base for the international economy for about 25 years. The current system—or "nonsystem" as budding wags call it—has had to contend with major economic dislocations, innovations, and globe-swirling capital flows of massive proportions. We live in an international economy where the important decisions are taken from a national perspective.

The Portes-Swoboda volume is based on a conference of thinkers, doers, and supervisors (i.e., academics, bankers, and officials). It is an informative and well balanced collection that should be of considerable interest to anyone concerned with international financial issues. Portes and Eichengreen deal with the anatomy of financial crises. Notwithstanding their clumsy epidemiological metaphor, the analysis is stimulating and insightful. It compares the crisis of the 1930s with those of the 1970s and 1980s within the analytical framework of the linkages between debt default, exchange market disturbances, and the instability of the banking system. The main lesson of the 1930s has been a better understanding of these linkages. For a number of reasons, the latter-day crises have not been as serious as the earlier ones. The critical role of public policy in protecting the stability of the financial system and the macroeconomy is now recognized, but policy coordination is a key to mitigating the effects of future crises.

Following up on the importance of the role of public policy, Baltensperger and Dermine examine the motives, needs, and characteristics of regulatory systems, while Schaefer discusses regulation and supervision from a theoretical and practical perspective. That theory has much to contribute to this topic is suspect (although no subject is nowadays considered respectable without the trappings of a theoretical foundation). Supervisory practice must be firmly grounded in each country's history and traditions. Kane on competitive "reregulation" (a word used in a confusing manner to denote any adjustment in regulatory instruments) is either codifying common sense or saying something very profound.

Guttentag and Herring provide a lucid and informative paper on liquidity assistance for international banks and cogently argue why such assistance, traditionally accepted for domestic banks, must be extended to international banking, where both depositors and loan customers reside outside the bank's home base. More empirical references would have been interesting. (Some years ago a bank in East Asia piled gold bars in its window to stanch panic withdrawals by depositors!)

W.M. Scammel's perspective is a broader one—the international monetary system covers international liquidity, exchange rates, and adjustment mechanisms, whereas international finance refers to the transmission of savings. This is a reflective, well written, and historically grounded book whose compactness should make it all the more attractive. In spite of his surprisingly intemperate asides on the role of the IMF in adjustment, the author has a thorough grasp of his subject. He observes that, paradoxically, greater international economic integration has not enhanced stability. He emphasizes the now dominating importance of capital movements; he is skeptical of the "market-can-solve-all-problems" approach; and he looks with favor on target zones—a preference that would seem to be inconsistent with his strictures against the one-way speculative option provided under the adjustable peg system.

On the whole, Scammel is cautiously optimistic about the international monetary system, remarking on its considerable adaptability and resilience. Indeed, the routinely proclaimed demise of the system has been greatly exaggerated.

Finally, Robert Hormats, who is a thinker, a doer, and has been an official, provides a readable, breezy account of the major international monetary developments of the past 40 years. The one theme common to all three works is succinctly expressed by Hormats when he says that the fundamental question for the future is "whether there can be a reform in attitudes of governments sufficient to ensure that domestic policies will be aimed to a greater degree at avoiding major international disequilibria."

*Bahram Nowzad*

Phillip Cagan (editor)

## Deficits, Taxes, and Economic Adjustments

American Enterprise Institute, Washington, DC, 1987, 332 pp., $27.50 (cloth), $14.75 (paper).

This volume is the latest in an annual series on contemporary economic problems launched by the American Enterprise Institute in 1976 under the direction of the late William Fellner. The new volume contains ten essays addressing a wide range of current issues facing the US economy.

Given the diversity of topics addressed, one might expect this book to be a handbook of the latest information on the most pressing policy issues of the day, but that is not what the volume turns out to be. Some of the most pressing and long-standing issues are dealt with obliquely or not at all.

Thus Jacob Dreyer's, Gottfried Haberler's, and Kenneth M. Brown's reviews of



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issues in exchange rate behavior, policy coordination, and protectionism give valuable restatements of familiar and general themes, but readers seeking enlightenment, for example, on the role of the exchange rate in solving the balance of payments problem will have to look elsewhere. John Weicher's discussion of the federal budget confines itself to "domestic" expenditures, which it defines as the budget exclusive of defense, interest, and spending for international affairs, with virtually no mention of far more compelling global fiscal issues. The paper by Marvin Kosters and Murray Ross on determinants of the growth and distribution of real wages in recent years studiously avoids explicit discussion of the closely related topic of productivity growth. Eugene Steuerle's discussion of the economic effects of the recent US tax reform covers the opportunities to broaden the base of individual income taxation that were missed by the tax reformers. Somehow, however, Steuerle avoids all mention of one of the most important, the mortgage-interest deduction. He also omits any mention of owner-occupied housing in his treatment of the productivity-enhancing value of the more-nearly equal effective tax rates on different assets that emerged from the tax reform. Such omissions, plus Steuerle's flawed macroeconomic analysis, make his essay the one disappointment in the book.

These problems aside, there are a number of useful and even novel elements in the volume that make it worthwhile reading. Hendrik Houthakker explains the inefficiency of fixed tariffs in oil, complementing the more general presentation in Kenneth Brown's essay. Houthakker's proposal of a variable tariff on oil will be new to many readers, and merits consideration. Phillip Cagan reports econometric results suggesting that much of the shift in money demand resulting from the financial deregulation of the early 1980s can now be explained, and this too should be useful information for policymakers. Cagan's results suggesting a surprisingly small contribution of the dollar appreciation of the early 1980s to the domestic disinflation of that period are provocative. The same can be said of Brown's figures that belie the widely held view that the US economy is becoming more heavily concentrated in the services sector.

*Frederick Ribe*

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Martin Feldstein (editor)

## The Effects of Taxation on Capital Accumulation

The University of Chicago Press, Chicago, IL, USA, 1987, viii + 490 pp., $55.

The 14 papers that make up this book were prepared as part of an ongoing study of the effects of taxation on capital accumulation in the United States. Publication of the study is timely because tax reform proposals, which would involve significant changes in the incentives to save and invest, have either been implemented or are being considered in many countries. The book deals with the recent experience in the United States where the interaction of frequent changes in tax legislation and variable inflation rates caused important changes in the incentives to save and invest, particularly beginning in the 1980s. The broad message from the studies is that capital formation is quite sensitive to tax policy. Whereas some of the research in the book confirms earlier findings, other studies provide fresh insights and, in particular, reveal the pitfalls of taking a partial approach to tax reform. The contribution of Martin Feldstein and Joosung Jun, for example, suggests that tax incentives that were introduced in the beginning of the 1980s significantly stimulated net fixed business investment. However, two-thirds of this positive effect was offset by the adverse impact of rising interest rates, which were partly attributable to the effect of the tax incentives on the fiscal deficit.

Patric Hendershott's study provides another illustration of the importance of adopting a comprehensive approach to tax reform. Advocates of the recent tax reform in the United States have argued that this tax reform would enhance the overall efficiency of the tax system by reducing the distortions implied by differential taxation of business investment. Hendershott's paper suggests, however, that the new tax law hurts overall efficiency by worsening the distortion in the resource allocation toward owner-occupied housing.

In view of the importance of taking a comprehensive approach to tax reform, it is somewhat disappointing that none of the studies in the volume examines how taxes affect the accumulation of human capital and intangible assets. Although the recently implemented tax reform in the United States may discourage the expansion of capital-intensive industries, the significant reduction in marginal tax rates on personal labor income may encourage the development of labor-intensive and research-intensive industries.

Despite this criticism, the book is timely and useful, not only for those concerned with US tax policy but also for all those who are concerned with fiscal policy worldwide. The empirical results in a paper by Boskin and Gale, for example, indicate that the US tax structure significantly affects the international allocation of investment. Therefore, policymakers in other countries cannot ignore the consequences of tax reform in the United States. At the same time, the international coordination of fiscal instruments may become an important policy issue.

In sum, the studies in the book confirm that the efficiency of fiscal instruments is important for growth and that both saving and productive investment are sensitive to the choice of fiscal instruments. This finding has important implications not only for tax reform proposals now under consideration but also for the design of growth-oriented structural adjustment programs.

*Lans Bovenberg*

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Sebastian Edwards and Liaquat Ahamed (editors)

## Economic Adjustment and Exchange Rates in Developing Countries

University of Chicago Press, Chicago, Ill., 1986, xi + 443 pp., $48.

Since 1971, developing countries have increasingly used exchange rate policies to deal with external disequilibria. This development has given rise to many questions regarding the macroeconomic impact of such policies. The 11 impressive papers contained in this volume bring recent developments in macroeconomic theory to bear on these questions. Originally presented in 1984 at a conference sponsored by the National Bureau of Economic Research and the World Bank, the papers fall into three categories: macroeconomic models focusing on the effects of particular adjustment policies; analyses of alternative financial regimes; and case studies.

Leading off the first of these groups, Sweder van Wijnbergen describes supply-side mechanisms through which a devalua-



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tion has a contractionary effect, and shows that the presence of a foreign debt intensifies such an effect. Michael Mussa explores the ways in which the real exchange rate can be altered by commercial policy, capital controls, fiscal policy, and a combination of harmonized monetary and exchange rate policies. Jacob Frenkel and Joshua Aizenman develop a complex model that is used to derive optimal rules for wage indexation, monetary policy, and exchange rate policy as alternative means of dealing with exogenous shocks. Rudiger Dornbusch argues the case for using multiple exchange rates as a means of minimizing the cost of adjusting to transitory disturbances. Arnold Harberger, presenting a textbook exchange-market analysis to deal with various policy issues, argues for defining the real exchange rate as the nominal exchange rate deflated by a general domestic price index rather than the ratio of traded to nontraded goods' prices.

Guillermo Calvo and Maurice Obstfeld deal with problems arising from financial liberalization. Calvo analyzes the implications of a liberalized banking system with free international capital movements in a small country. Obstfeld examines the impact of changes in an officially controlled exchange rate depreciation both with and without international capital mobility.

The four case studies lend welcome balance to a heavily theoretical volume. Sebastian Edwards shows that increases in coffee prices have been associated with higher rates of base-money creation and inflation in Colombia. William Branson uses a macroeconomic model of Kenya to argue that as a means of external adjustment, reduction in government spending is less contractionary than devaluation. Louka Katseli presents evidence that discrete nominal devaluations produce faster price adjustments—and therefore less impact on the real exchange rate—than a crawling peg. Jorge de Macedo analyzes adjustment behavior of countries in the West African Monetary Union.

The papers and comments are of the highest quality. This is not surprising, considering the distinction of the conference participants. Nevertheless, the many different models and partial analyses of exchange rate policies in developing countries may simply add to the bewilderment of some readers. International economists are clearly still groping for a generally accepted theoretical framework in analyzing the issues addressed in the book.

*Anthony Lanyi*

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Susan Joekes

## Women in the World Economy

Oxford University Press, New York, 1987, ix + 161pp., $19.96

No better book has been published on the subject since Ester Boserup's study, *Woman's Role in Economic Development*, appeared in 1970. *Women in the World Economy* contains some interesting hypotheses and useful information, but falls short of providing a comprehensive and systematic framework to study women's employment in developing countries.

The question posed early in the book is whether international trade since World War II has reinforced sexual divisions that emerged with early monetization of agricultural communities in which women were confined to the household and subsistence sectors while men participated in commercial activities. The general conclusion is that international trade favored women's employment in developing countries and that traditional segmentation patterns were not reinforced. However, Joekes contends elsewhere in the book that women's enhanced opportunities consisted mostly of dead-end, low-skill jobs that replicated "the worst features of the traditional segmentation of occupation by sex."

The study's main point is that the success of developing countries—mainly East Asian—in export-led growth has depended upon their comparative advantage in labor-intensive manufactured products made by cheap female labor. Consequently, there appears to be a shift in women's employment opportunities from agriculture to industry within developing countries; and from developed to developing countries in general. It is the social characteristics of women—for example, their reproductive role and low education levels—that make them the cheapest labor. The role of multinational corporations in increasing women's employment is considered important, as these companies, unfettered by cultural inhibitions, began realizing the potential profits from hiring low-cost female labor.

In the agriculture sector, the employment picture for women is not so bright. Joekes argues that the tasks allotted to women—for example, tending and harvesting of crops—are most amenable to mechanization. Although employment opportunities for Asian women increased with the enhanced output from new high-yield crop varieties, Joekes asserts that mechanization displaced more female than male labor. However, firm evidence is not provided to support this view. In Sub-Saharan Africa, falling international prices have had an adverse impact on women farmers, who account for the majority of food producers.

In Latin America, the proportion of the female labor force employed in the services sector—mainly domestic services—is 63 percent. In Africa and Asia, this proportion is much smaller. In general, trends in the services sector are found to be unrelated to international factors. A significant drawback of the study is the lack of comprehensive cross-country comparisons to pinpoint why women's employment in some countries has fared better than in others that had an export-oriented industrial growth strategy. For example, how important are differences in levels of education and skills? Is there a greater comparative advantage in hiring cheaper female labor when there are surpluses in the male labor market? Given the likely trends in technology and trade, what are the future trends in women's employment? These issues are barely touched upon.

The last part of the book summarizes the previous sections. Policy recommendations in the final chapter are clearly specified, although they are not adequately supported by the main analysis. One important policy proposal is that reversals in women's gains resulting from international trade should be prevented by training women in improved industrial and agricultural techniques.

The author also recommends that economic adjustment programs take the gender dimension into account. Nevertheless, the book does not look very closely at the implications of structural adjustment programs on women's employment, nor at the effects on women of specific policies of privatization and reliance on market forces.

*Masooma Habib*



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H.W. Arndt

## Economic Development

### The History of an Idea

University of Chicago Press, Chicago, 1987, viii + 217pp., $20.95.

This new retrospective of development thinking brings to mind George J. Stigler's dictum that "it remains the unfulfilled task of the historians of economics to show that their subject is worth its cost."

In an earlier publication, Arndt had traced the evolution of public attitudes toward economic growth in developed countries. The present offering attempts a similar treatment for development, a vastly more ambitious undertaking given the heterogeneity of developing countries and the growing diversity of thought about economic development, an idea which has "come to encompass almost all facets of the good society, everyman's road to utopia."

Despite the scope of the undertaking, Arndt's approach is minimalist. Innocent of empirical findings, neutral in tone, and modest in intent, the book does little to evaluate the progression of thought within the discipline, its evolving assumptions, models, concepts, and criteria of evidence. It shies away from economic analysis and policy prescription. And it neglects to trespass into the politics and sociology of development which characterizes the best work of Joseph Schumpeter or A.O. Hirschman.

What Arndt does (and does rather well) is to relate the major strands of development thinking to their historical origins and to intellectual trends. The focus is on mainstream attitudes as reflected in academic writing and public debate. Especially valuable is the inquiry into the intellectual antecedents of development economics—from Adam Smith's "natural progress of opulence" to Sun Yat-sen's "reactive nationalism." In nontechnical prose, Arndt expertly weaves the views of postwar academic economists with those of 19th century colonial theorists and nationalist leaders of the left and the right—from Marx to Mao and from Gandhi to the Ayatollah Khomeini.

The account of the major themes and leading issues of development economics from the late 1940s to the mid-1970s treads familiar terrain. Initially, development was largely identified with growth and stressed capital formation, industrialization, and a leading role by the State in directly productive activities. Arndt charts adequately the subsequent changes in perceptions about the neglected role of human capital and technical progress followed by the sudden shift of development thinking during the early 1970s toward employment creation, poverty alleviation, and basic needs.

Arndt's panorama of the changing intellectual framework of development provides a serviceable introduction to the topic. But it fails to bring to life the animated controversies of the post World War II period. Emphasizing intellectual fashion over professional analysis, its relativistic stance inevitably equates ideological rhetoric with competent assessments of development policy. Inexplicably, the inquiry is not sustained through the late 1970s and early 1980s. Therefore, the book provides no clue about the resurgence of neoclassicism in development economics. It does not describe the emerging consensus about the benefits of outward trade orientation or the increasing realization among practitioners that institutional change and policy reform must hold center stage in an interlocked global economy. As a result, the book sheds little light on the predicaments faced by policymakers in developing countries today.

To tell the story of development from the 1950s to the 1970s without describing its logical culmination—adjustment in the 1980s—is like telling a joke without giving the punch line. This is why this book ultimately falls flat.

*Robert Picciotto*

# BOOKS *in brief*

Robert Cassen & Associates

## Does Aid Work?

### Report to an Intergovernmental Task Force

Clarendon Press, Oxford, UK, 1986, and Oxford University Press, New York, 1987, xv + 381 pp., $45 (cloth), $15.95 (paper).

This report, commissioned for the Bank-Fund Development Committee by 18 governments and written by an international team of consultants, answers its own question thus: "Most of it, yes; however...." (An overview of the report was published in this journal's March 1986 issue.) While reaching "a well educated assessment" that most aid works, the broad conclusion of the various studies in this compilation of experience in seven countries, together with assessments of the role of aid and donor agencies, is that the aid process needs to be improved. A more open discussion of the failures of aid would help prevent future problems from arising and sustain public support for development assistance. An important finding of the consultants was that in the combination of aid and domestic policies in recipient countries, the role of the latter was more important. No matter how well documented and presented, no report can be expected to alter radically the behavior of donors or aid recipients. But, this clear presentation of facts and opinions identifies critical issues in the aid process and should serve as a sound basis for future discussions on improving aid coordination and use.

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Dick Wilson

## A Bank for Half the World

### The Story of the Asian Development Bank 1966–1986

Asian Development Bank, Manila, the Philippines, 1987, 392pp., $25 (cloth), $8.50 (paper).

This commissioned volume provides a well documented look at the origins and growth of the ADB. With the non-regional developed countries taking only a 40 percent share in the initial capital of the institution, the ADB became the first regional development bank that was designed as "an international partnership." The bank has lent almost $20 billion since its birth, mainly for projects, leaving policy-based lending to its larger cousins such as the World Bank. It has also provided technical assistance to countries in the region and to other regional or smaller multilateral institutions, such as the Islamic Development Bank. The author provides a wealth of information on the personalities and activities that marked the ADB's first 20 years. The critical comments are guarded, and problem projects are treated with polite brevity. In the end, the book serves primarily to report, often the ADB's official view, with little outside commentary or analysis by the author that might offer the reader a preview of the next 20 years.

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Merrie Gilbert Klapp

## The Sovereign Entrepreneur

### Oil Policies in Advanced and Less Advanced Capitalist Countries

Cornell University Press, Ithaca, NY, 1987, 244 pp., $27.50.

This book is an interesting contribution to the theory of the state and international bargaining theory. It applies these theories to the pattern of state control in the oil industry. The main question addressed is: Why did governments create state-owned oil companies? It then goes on to show the extension of the state's role in the crucial oil sector. Klapp also compares state policies and control over oil companies during the period 1960–85.



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