Book Reviews

Kicking Away the Ladder: Development Strategy in Historical Perspective. By Ha-Joon Chang. *London: Anthem Press*, 2002. Pp.187. £14.95/US$22.50. ISBN 18433 10279

Kicking Away the Ladder elicits a mixed reaction. In one sense it is a thorough and interesting extension of the study by economists of Third Word development. It ventures into history and empirical reality. It investigates the experience of 'now developed countries' and indicates that the demands for Third World countries to implement a set of policies and institutions which address industry, trade, and technology – such as free trade and an efficient bureaucracy – is unreasonable. However, despite the fact that it is a thoughtful and thorough study, many investigators of such Third World Development will indicate that the book's thesis is far from novel – the theme represented by the title, *Kicking Away the Ladder***,** has been expressed in the literature on numerous occasions for over a half century. The author simply ignores such analyses – as do most of his disciplinary colleagues.

Essentially, the book serves to underline the fact that Third World under/development is investigated by two quite separate camps. The first views the world in terms of neoliberal market economics, internal barriers, and believes that (with variation in the details) the history of the First World is being repeated in the experience of today's Third World poverty and destitution. The alternative indicates events tied to the International Financial Agencies, the extension of a world market, global corporations, the hollowing out of the ability of Third World countries to regulate, globalisation, and world trade as being the primary agents of the 'external' context within which such nations are set. In other words, each addresses development differently.

The thesis of the book in Chang's words is (p.3): ' … aren't the developed countries, under the guise of recommending "good" policies and institutions, actually making it difficult for the developing countries to use policies and institutions which they themselves had used in order to develop economically in earlier times?' Here, in an impressive display of the use of the information of economic history, he examines temporal data on the use of policies relating to industry, trade, and technology by the countries of the First World as they experienced economic betterment. As a result his inductive theorising questions the deductive generalisations of neoclassical economics – his testing finds the latter to be ingenuous and unfounded, in effect he 'tweaks the nose' of mainstream economics in terms of its neglect of reality. As he states (p.7): '… we rarely now see discussions that are based on the historical experiences of the now-developed countries.' In effect, he suggests a blending of economics' present conceptual framework with empirical actuality. His critique is especially marked in that it comes from one of the discipline's own practitioners.

Chang's focus is upon the evolution of the policies (such as limited liability, free trade, and central banking) and institutions (democracy, bureaucracy, labour conditions, and so forth) of the now-developed world. His historical analysis is impressive! It brings into question disciplinary myths and assumptions. For example, he indicates that the use of various measures of protection in all of its guises – tariffs, import duties, export subsidies, regulations, the outright banning of certain imports, agricultural research, educational spending, the provision of transport infrastructure, R&D spending, financial incentives, defence procurements, monopoly grants, the prevention of technology export, cheap raw material inputs, state support and production, banning the emigration of skilled labour, using naval and commercial supremacy, investment planning, importing skilled workers and machinery, patent and copyright protection, and industrial espionage – was a common strategy found during the historical evolution of the First World. The story is complex, as the vehicles of protection varied by country, by industry, and over time; they altered from 'blanket' to 'focused' protection. However, the striking conclusion is that free trade in the historical experience of the First World is a myth – and now the First World 'kicked away the ladder' for its use by Third World nations as they attempt to develop. He notes (p.58): 'The picture that emerges from this historical review is fundamentally at odds with the picture held by Neo-Liberal commentators … '. As well as the focus on protection, he furthers the thesis by examining or revisiting the historical use of institutions such as democracy, bureaucracy, the judiciary, property rights, intellectual property rights, liability, bankruptcy law, banking and finance, securities regulation, social welfare, labour institutions and hours, work conditions, child labour, and competition.

Even though it points to reform, the book also raises profound disquiet – it is unfortunate that Chang's book provides the vehicle for this expression as his analysis is profound, insightful, and exacting – it questions the very foundations of his discipline. However, there would appear to be an underlying 'blinkered' view of the analysis in that views contrary to mainstream economics are simply ignored (for example, the set of references contains few 'non-orthodox' items). This concern has been expressed and repeated by hundreds of academics in anthropology, political science, geography, sociology, history, planning and development studies; and by practitioners in governmental, non-government, and charity aid agencies – yet they have been ignored by most economists. This is not just an academic 'tempest in a teapot' for millions of people in the Third World live in sickness and poverty – or they die!

Having read Chang's outstanding historical analysis, the hypocrisy implied when the World Bank talks to the Third World about 'good policies' and 'getting the prices right' is a bit much! The lessons of history have been ignored by the powerful. There are mindsets other than the neoliberal mould – for example, social democracy, socialism, Marxism. Also, neoliberalism assumes market exchange via supply and demand – but exchange in much of the Third World is often embedded in social systems, and is expressed in reciprocity and redistribution. As well, the world contains other than Judeo-Christian culture. Yet, for the Third World there is no alternative.

Chang's analysis provides an element of the rethinking of world development found in the post-Washington Consensus discussions of globalisation, debt overhang, the role of the Third World State, incorporation, underdevelopment, and poverty. Hopefully it will impact upon his discipline and also upon neoliberalism's disciples in the World Bank, the International Monetary Fund, and the World Trade Organization.

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Globalisation and the Politics of Development in the Middle East. By Clement Henry and Robert Springborg. *Cambridge: Cambridge University Press*, 2001. Pp.xxi + 258. £45 and £14.95. ISBN 0 521 62312 X and 62631 5

This concise study is a valuable addition to the literature on the political economy of the Middle East. Henry and Springborg are two leading political scientists specialising in this troubled region, the former being Professor of Government at the University of Texas and the latter being director of the American Research Centre in Cairo.

The most interesting feature of the study is the classification of countries in the Middle East into bunker states, bully praetorian states, globalising monarchies and fragmented democracies. The six bunker states are identified as Algeria, Iraq, Libya, Sudan, Syria and Yemen. Their governments are seen to be in a potential state of war with the societies they rule, and consequently they have the least institutional capacity to manage their economies. Their elites depend on clan and tribal loyalties and there is no trust of outsiders. Civil society and entrepreneurs have been deactivated, silenced, forced into exile or eradicated. The bunker states have very underdeveloped banking systems, usually dominated by state owned banks with little credit extended to the private sector. Consequently informal economic activity dominates, and most of the money supply is outside the banking system.

Inevitably the treatment of individual countries must be selective in such a concise volume. In the chapter on the bunker states most attention is given to Algeria, a state Henry knows well, with somewhat less detail on Syria's recent political and economic history. The critical analysis of Algeria provides useful insights into the underlying conflicts within its society, and the failure of its attempt to use its oil and gas revenue to industrialise.

Egypt, Tunisia and the Palestinian National Authority are classed as bully praetorian states where the ruling elites depend on the military, security and party apparatus, although some critics might dispute the importance of the latter. As the ruling elites are not drawn from any particular tribal group they are more representative of the societies they rule. Much of the material on the praetorian states is devoted to Egypt, part of the focus being on the crony capitalist privileges that the government provides for a few select businesses. These privileges only extend to the domestic market however, where the state can guarantee monopolies and oligopolies, but it is powerless to extend these beyond its borders. Therefore unlike the crony capitalists of Asia who are focused on exporting, those in Egypt are trapped in a rather stagnant local market. In contrast to the privileged few, most firms in Egypt have no government support, and largely consist of micro-enterprises in the informal sector. Such firms survive rather than flourish as they lack capital, technology, productive capacity and even legal recognition given their informal status.

The globalising monarchies are seen as being the most successful economies in the Middle East as there is an alliance between the rulers and business, with the latter free to pursue international alliances through joint ventures that can prove to be commercially viable. The countries in this category are identified as all the Gulf Co-operation Council states, Morocco and Jordan. Much of the analysis is devoted to Morocco and Saudi Arabia, the treatment being marred by a few factual errors, notably the assertion that the population of Morocco is three times that of the indigenous inhabitants of Saudi Arabia, when it is actually twice as large. The analysis of the failure of the private sector in Saudi Arabia to employ local nationals is correct, although some progress has been made since the book was written. There is an informative account of the banking system in Saudi Arabia, including the role of

Islamic finance, that is becoming ever more significant in the Kingdom.

Iran, Turkey, Lebanon and Israel are categorised as fragmented democracies although some might dispute the inclusion of the latter, as democracy does not extend to all the territories it controls and power is restricted in perpetuity to one religious group. The all too brief account of Israel's political economy is interesting, notably the failure of the major right wing party, Likud, to embrace capitalism and globalisation given the low socio-economic status of many of its supporters.

The book contains a wealth of statistics to support the arguments advanced, mainly drawn from international sources. Some of the charts are unfortunately difficult to read and interpret, and Cambridge University Press has failed to adequately reproduce the bar charts and line graphs that could easily have been improved through editing. Despite these minor quibbles, the work should serve as a valuable text for undergraduates and postgraduates taking courses on the politics of the Middle East. At the same time Middle Eastern specialists will find much to give them reason to reflect, notably the country classification that stands up well to close scrutiny. Despite covering a vast and complex region, there is real depth to the analysis. Most of the material is more than adequately handled and the authors provide a framework that helps the reader appreciate the underlying dynamics of development in the region.

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Financial Globalization and Democracy in Emerging Markets. Edited by Leslie Elliott Armijo (International Political Economy Series). *Palgrave: Basingstoke*, 2001. Pp.xxi + 348. £65 and £19.99. ISBN 0 333 71708 2 and 71110 6

Economic and political liberalisations, two synchronised global trends, have been widespread in the last decades. Although financial globalisation has been extensively studied, much less attention has been paid to the political consequences of financial globalisation in emerging markets. This collection of 14 essays, edited by Leslie Elliott Armijo, evaluates the political consequences of financial liberalisation in borrowing countries engaged in stabilisation and other reforms, from an array of disciplinary and analytical prospects.

The volume is divided into three sections. Part I contains a compilation of theoretical and comparative essays that analyse the links between democracy and the evolution of global capital markets. In Chapter 1, the editor identifies six ideal types of international investment instrument, and their different degrees of volatility, and traces the implications of each of these for economic growth; the political influence of business; the risk of balance of payments crises; and the pressure on the government for neoliberal economic reforms. It is argued that a shift in any of these variables has serious implications for the speed of democratic transitions and the stability of the newly established democracy.

In Chapter 2 Stefano Manzocchi provides a historical outlook on international finance and capital flows in developing countries. Manzocchi reckons that foreign capital inflows contribute to net investment and economic growth in borrower countries. The essay also debates the controversial role of financial liberalisation in increasing capital flows, and of capital flows in equalising incomes between rich and poor nations.

Chapter 3, by Mary Ann Haley, evaluates the supremacy of institutional investors, suggesting that institutional investors, which are few in number, engage in substantial informal coordination, contradicting the efficient market hypothesis. She also shows that the private investor's rational preferences are for political stability, not necessarily democracy.

The final chapter of Part I, by Tony Porter, considers the transnational agenda for financial regulation in developing countries. He observes the lack of power of emerging countries participants in the transnational fora that govern global economic and political negotiations. Also, the question of policy-making autonomy in capital importing countries is addressed, which the author regards as an essential component of a sovereign democracy.

The second part of the book contains case studies of seven large emerging market economies. The case of Mexico's 1994 peso crisis is analysed in Chapters 5 and 6 from two different perspectives. William C. Gruben examines the factors that led to the devaluation of the peso in 1994. Gruben attributes the crisis mainly to inherent proclivity of highly volatile capital flows, and to a lesser extent to the irresponsible economic policy management within Mexico. Carlos Elizondo Mayer-Serra considers the political implications for Mexican democracy of the international financial crisis, and particularly the role of the North America Free Trade Agreement (NAFTA) in monitoring Mexican's politics.

In Chapter 7, Peter R. Kingtone notes that regardless of the existing economic regime, if a country's domestic market offers sufficient attractive investment opportunities it will experience substantial inflows of foreign investment. For the case of Brazil, Kingstone stresses that the external financial crises frequently have had negative domestic political repercussions.

Randall W. Stone's essay on Russia presents a contrasting argument (Chapter 8). He also provides a comparison between the reactions of the multilateral aid suppliers', and private portfolio investors on government bonds, to distressing reports about Russian's public finances and macroeconomic policies in general. He shows that Russia's official creditors – primarily the IMF – were significantly more patient with macroeconomic policy failures than were portfolio private investors.

In Chapter 9, John Echeverri-Gent discusses India's financial globalisation and liberal norms. He challenges Porter's argument that transnational pressures for regulatory convergence may undercut democratic self-governance in emerging market countries.

Jeffrey A. Winters looks at the negative role of transnational capital in democratisation for the case of Indonesia (Chapter 10). Winters regards Indonesia, a long-time recipient of foreign capital flows (including FDI, commercial banks loans, and portfolio investment), as an obvious example of the thesis that foreign capital flows of all kinds support governments in office and the type of political system they represent.

In Chapter 11, Jonathan Haughton examines the case of Vietnam, a country that has evidenced an astonishingly rapid opening to large-scale capital inflows. Haughton assesses the contribution of foreign investment to economic growth, as well as its implications for political liberalisation, and the probability of an eventual transition to full political democracy. The platform for foreign investment in Vietnam is very peculiar, since the government has compelled private foreign investors to form partnerships with the state-owned enterprises or Ministries, thus retaining a large control of the allocation of foreign funds. Danny Unger's essay (Chapter 12) evaluates the repercussion of huge capital flows to Thailand.

Finally, Part III presents the conclusions (Chapters 13 and 14). All of the authors agree that net capital inflows are an opportunity to increase domestic savings investment, and growth. Most authors, however, see relatively few benefits to capital importing countries coming from the more volatile (speculative) portfolio capital flows. In general, it is concluded that financial globalisation has engendered a redistribution of economic, and hence, political power away from the state and towards the local private business community. It is suggested that globalisation is more likely to promote democratisation in East Asia, where there is a tradition of comparatively strong, authoritarian states, than in Latin America, where there is a history of fragile states and politically powerful economic elites.

Leslie Elliot Armijo and the other contributors have made a welcome contribution to the literature by bringing together two key social sciences in their study of financial liberalisation in emerging markets. It should inspire more co-operation between disciplines in the analysis of major economic, social and political issues.

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Development Hegemony: NGOs and the State in India. By Sangeeta Kamat. *New Delhi: Oxford University Press*, 2002. Pp.xix + 187. Rs 745/£17.99. ISBN 0 19 565692 X

In recent years there has been a marked growth in the number of Non-Governmental Organisations (NGOs) in India working at the grassroots. The withdrawal of the state from some crucial sectors of the economy since 1991 has provided the NGOs with greater scope for work with the funds that they receive mainly from foreign agencies. As a result of the growth of the NGOs and the increasing development functions that they perform at the grassroots, the NGOs have come under heavy scrutiny from academia. Some of the important works that have come up very recently are those of Riley (John M. Riley, *Stakeholders in Rural Development: Critical Collaboration in State NGO Partnership*, New Delhi: Sage, 2002) and Crowell (Daniel W. Crowell, *Sewa Movement and Rural Development*, New Delhi: Sage, 2002). One of the central concerns of these works is the exact nature of the relationship between NGOs and the state.

Sangeeta Kamat's work makes a significant contribution to our understanding of the subject. This interesting narrative, which follows a Marxist/Gramscian framework, is divided into six chapters. In the first chapter entitled 'Development Discourse and the Terrain of Non-Party Political Formations' the author explains how the ideology of development has come to acquire immense importance in the Third World and how the development programmes confront resistance at different levels, from the level of formulation to the level of implementation at the grassroots. The author is primarily concerned with 'Social Action Groups' (a form of NGO to Kamat), and to her they are the product of the twin processes of the failure of the development policies at the grassroots in the country on the one hand and the decline of the organised left movement on the other hand. It is the leftists who are mainly active in these 'Social Action Groups'. The author distinguishes 'Social Action Groups' from other types of NGO: she argues the former are much more radical in their critique of the state and society. Kamat also turns to the debate on the role of the NGOs and rightly concludes that the debate on grassroots organisations remains a stalemate, there are celebrators as well as detractors.

In Chapter 2 the author searches for a theoretical framework for situating and analysing the role of the NGOs. Her attempt is to find a framework that will produce a 'proper understanding of the processes of domination, hegemony, and resistance that occur within grassroots organizations' (p.31). She advocates a Gramscian perspective in order to comprehend the grassroots organisations. In a separate section, while spelling out her methodology she notes that her aim is to 'read the discursive and material practices of the lead actors of a grassroots organization for how these practices relate to dominant ideologies and statist discourses of citizenship, rights, democracy, modernity, and to the extent to which these are challenged or framed in new ways' (p.43). For this purpose she adopts an analytical framework that is interdisciplinary, combining approaches from anthropology, political sociology and history.

In Chapter 3 ('A Discourse of Depoliticization'), Chapter 4 ('Development, the State and Commodity Fetishism') and Chapter 5 ('The Discreet Charm of the Petit Bourgeoisie or the Translation of Coercion into Consent') of the book she examines the material practices of the lead actors in a grassroots organisation and relates these practices to the dominant ideologies. In Chapter 3 she shows how the state attempts to prevail over the Sanghatna by separating politics from economic issues. The next two chapters, 4 and 5 are closely related. In Chapter 4, the author shows how the projects formulated by the state are not opposed but accepted by the Sansad activists and workers. This brings in certain contradictions in the development discourse of the activists since the activists of the Sansad and the Sanghatna are the same, the Sanghatna being the agency that is antagonistic to state practices of development. In Chapter 5, the author looks at the nature of the opposition of the Sanghatna activists to the state and capital's domination, and how it is expressed through this organisation. The state is not seen as an organ of the elites or classes in the society; there is also no attempt to challenge the existing class and social relations.

In the concluding chapter the author theorises the role and historical character of the NGOs including non-party left formations. The author criticises the attempts towards homogenisation and differentiates between NGOs and the non-party left activities (also referred to as Social Action Groups) at the grassroots. After having done that she defines NGOs of the first kind as 'those organizations that engender a corporatist identity among their members, that work within the existing political forms of the state, and do not facilitate a reinterpretation of the material basis for a collective identity' (p.161). She is probably right when she argues that the non-party left activity has mellowed, not only because of the repressive apparatus of the state and capital but also because of the growth of NGOs of the first kind.

The work by Kamat is a significant one and contributes to our understanding of grassroots organisations in the country from the Marxian perspective. The author is right in arguing that the NGOs are organically connected with capitalism and capitalist social relations, and as a result they are incapable of challenging the authority of the state and transforming unequal social relations. The development practices of these organisations in the long run concur/confirm to the development discourses of the state. So far as 'Social Action Groups' are concerned, the state exercises hegemony over them. Although the book suffers from over-theorisation it is probably the best work on the subject within the broader Marxian framework.

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Understanding Business Systems in Developing Countries. Edited by Gurli Jakobsen and Jens Erik Torp. *New Delhi and London: Sage Publications,* 2001. Pp.260. £27.50 and £14.99. ISBN 0 7619 9435 1 and 9436 X

The point of departure for this collection of essays is the 'business systems approach' – associated particularly with the writings of Richard Whitley – and its contribution to the emergent 'business in development' discourse. Whitley's approach, developed from empirical work since the early 1990s on various East Asian newly industrialized countries (NICs), focuses on the characteristics of firms as socially constituted ownership-based units of financial control within wider boundaries of economic organisation (business systems). These types of economic organisation are also constituted through peculiar historic and social circumstances associated with different market economies, most often identified at the level of the national state. The central purpose of the approach, as described in Whitley's own contribution to the book, 'is to describe significant differences in the organisation of market economies and explain them in terms of variation in the nature of dominant societal institutions … [and] … to understand how and why particular differences in the prevalent modes of economic coordination have become established and continue to be reproduced' (pp.26–7).

The core contributions to this book critically focus on the application of the business systems approach respectively to country case studies including India, Indonesia, Malaysia, Korea and Ghana; countries selected in deliberate contrast to the NICs used in formulating the approach. A final chapter provides a more general theoretical critique of the business systems approach in the context of other 'business in development' perspectives. The book has an editorial introduction and overview followed by Whitley's opening chapter which expands a little on his approach as well as offering a comparative view of the case studies and response to some of the critical comments presented in the ensuing contributions. This chapter only makes sense *after* the country case study contributions. I also felt that a little more attention to explaining the business systems approach more thoroughly at the outset of the book might have offset the repetitive need for contributors to begin their chapters with an exposition of Whitley's work.

This book sits comfortably in the niche provided by the so-called impasse between neo-liberal and neo-statist perspectives on economic development in general and business development in particular. Whilst expressing varying degrees of critique, all contributing authors recognise the value of insights provided by Whitley's framework and the possibilities of developing the approach further. In particular, the approach shifts attention away from stereotyping industrialisation as a universal process, giving way instead to possibilities of meaningful cross-country comparisons whilst retrieving and privileging the diversity and uniqueness of socio-cultural contexts. Personally, as one not so well-versed in economics though appreciating its fundamental importance in development studies, I found the underlying premise of the approach – that market economies are essentially socially constructed – both refreshing (why should that be?) and engaging. Another engaging quality is the implicit invitation to appreciate business development in terms of 'systems'. In my view, a systems perspective can trigger and invite different perspectives and can mediate critically constructive contributions from differing disciplines, as exemplified in this book by the various influences cited between business studies and development studies along with 'new' disciplines of economic geography and institutional sociology.

However, I also experienced some frustration with the systems approach being adopted. First, a systems approach is about clarifying and conveying complex issues, often enhanced by the use of systems diagrams. Apart from two variants of an influence diagram presented in the final chapter, there are no systems diagrams in this book.

Secondly, the language used in the book is often confusing. The market economy, for example, is described as being divided into two ‘sectors’, an enterprise or business ‘system’ and an institutional ‘subsystem’. The institutional subsystem is divided between two institutional types; one of basic cultural values (background institutions) and another of values representing everyday life (proximate institutions). The business system is said to have three ‘components’: the nature of the firm, the market relations, and the authoritative coordination and control ‘system’. I do not find this wayward use of terms helpful. Any purposeful system has three generic parts: a boundary; subsystems of interrelated components within the boundary; and an environment outside the boundary consisting of factors which can either affect (or influence) the system and/or are affected (or influenced) by the system (but crucially are *not controlled* by the system).

In exploring business systems I would be happier with a more consistent terminological use: for example, using boundaries around the ‘business system’ and having the institutional factors occupying the environment. Of course, undertaking this task may throw up awkward questions regarding, for instance, the role of the constituent parts in maintaining or challenging boundaries (for example, what is the role of the firm?), and the actual positioning of the boundaries (for example, why limit the system to national state boundaries?) – concerns that actually arise on several occasions in the core chapters (particularly chapters relating to the Korea, Malaysia and Ghana case studies). A contemporary systems approach – including ‘soft’ and ‘critical’ systems thinking – is about questioning boundary issues, and provides conceptual tools for addressing such concerns.

Thirdly, a contemporary systems approach seeks also not only to re-present reality (the focus of Whitley’s work) but to actively transform reality by questioning boundary judgements. As the two authors of the Ghana case study observe, Whitley fails to take on board the implications of systems as *social constructs*.

Finally, a contemporary systems approach addresses not only ‘how’ questions (dominant in Whitley’s approach, for example, how are business systems coordinated?) but also ‘what’ questions; questions regarding the purpose of the system of interest. Is the business system assumed only to serve the purpose of enhanced prosperity or, as implied by the author of the India case study, might it also serve goals of improving equality and freedom? The very last question presented by the author of the final chapter signals the tension arising from what I consider as Whitley’s impoverished systems approach: ‘What is the meaning of effective, and can we imagine business systems that survive without being effective? How do we approach this normative issue, which can prove to be very important for development studies?’ (p.233). The contributions in this book provide a wealth of insight to business systems operating in the country case studies covered. They also signal the passion and intellectual vibrancy associated with adopting a business systems approach. In my view, enhanced developments of a contemporary systems approach to business in development might prove even more illuminating and challenging to not only the understanding, but also transformation, of business systems in developing countries.

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Macroeconomic Stabilization and Adjustment. By M.J. Manohar Rao and Raj Nallari. *New Delhi: Oxford University Press,* 2001. Pp.366. £24.99/R975. ISBN: 019 565548 6

Adopting International Monetary Fund and World Bank models in policy-making remains a subject of considerable debate, given serious concerns about the output collapse related to IMF-led stabilisation programmes. Rao and Nallari's book offers an excellent overview of issues related to adjustment and growth by providing an integrated macroeconomic framework using the analytical approaches of the Fund and the Bank in a coherent manner. The authors fine-tune this core model to make it better fit the structure of a developing economy.

Following increasing collaboration between the IMF and the World Bank since the 1980s, Khan, Montiel and Haque (M.S. Khan, P.J. Montiel, and N.U. Haque, 1990, Adjustment with Growth: Relating the Analytical Approaches of the IMF and the World Bank, *Journal of Development Economics*, Vol.32, Jan., pp.155–79) proposed a marriage between the Fund and the Bank by integrating their macroeconomic approaches to formulate a model of 'adjustment with growth'. Rao and Nallari follow in the same tradition, providing a one-stop text on those issues. The authors build up models, starting from the basic national income accounting identities and macroeconomic adjustment policies (the adjustments in monetary, fiscal and exchange rate policies), and take the reader step-by-step through the different models, integrating them finally into one all-inclusive theory.

The merged Fund–Bank models are built ensuring consistency through accounting identities, while the authors have derived some behavioural specifications on the basis of specific structural characteristics of a developing economy. Starting from the simple monetary model of Polak, the authors consider the Fund's financial programming model and the Bank's revised minimum standard model (RMSM). They then consider the integrated growth with monetary model (the so-called merged model) in which the interest rate and the fiscal deficit have been incorporated along with a detailed external sector. Following economic restructuring in the last two decades, the external demand and capital inflows have become relatively important in explaining macroeconomic behaviour and hence the behavioural treatment of the external sector in a developing country model is crucial. The book has indeed deepened our understanding in that direction. The authors have incorporated fiscal deficit within the standard three-gap framework, where the government's budgetary constraint is the main impediment to growth.

Rao and Nallari note that adjustment theory has gone beyond the Washington consensus, and accordingly they discuss the impact of redistribution by surveying the literature on 'adjustment with a human face'. Other viewpoints on this issue are not ignored, and structuralism and political economy approaches are duly considered. Aside from that, the book points out the frequency of recent financial crises and develops a theoretical framework to analyse these crises. In a world of high capital mobility, the threat of speculative attack is a central issue. Consequently, successful management of the capital account (monitoring inflows and outflows) is crucial to maintain financial stability. The authors discuss the optimum sequencing of the liberalisation process in the last chapter: 'Suppose a country liberalises its domestic financial sector before it liberalises its external sector, then credit could flow to a tradable sector which could be profitable because of the barriers to trade'. But in reality there is no such thing as an 'optimal' sequence.

Another crucial aspect of combining the controversial issues of stabilisation with growth, which has been neglected in the literature, is the extent to which such policy proposals reduce the productive capacity in the short run. Large negative output gaps exist in many developing economies where output is often below capacity. Given substantial excess capacity, a demand contraction via an austerity programme will have an adverse impact on the economy. The challenge is therefore to adopt effective policies to absorb the excess capacity so as to move these low-income economies to a higher growth path. But such issues remain unanswered in existing models of adjustment with growth, including in this book. Furthermore, the authors do not quantify the costs of lowering inflation in terms of output growth, which is a more relevant trade-off in designing stabilisation policies in a developing country. Such an exercise to derive optimal instruments while examining the trade-off between the targets requires a policy objective function, which is nowhere specified in the book.

Moreover, inflation stabilisation leads to a rise in real interest rates in a developing economy, since the impact of financial sector reform on depressing nominal interest rates is not evident in the short term. A rise in real interest rates could act to reduce investment demand, leading to output collapse. Hence there is a need for the models in this book to uncover an independent investment function rather than express it via the neo-classical mechanism of savings to promote growth as in the World Bank model. For an attempt in this direction, see S.K. Mallick, 1999, *Modelling Macroeconomic Adjustment with Growth in Developing Economies: The Case of India*, Ashgate: England. Also, the financial sector reform leading to an initial rise in nominal interest rates increases the fiscal deficit and public debt burden, and consequently forces the government to rely on higher tax rates to prevent explosive debt dynamics. This would in turn harm investment demand and contribute to output collapse in the short run.

While the study concludes that macroeconomic stabilisation is essential for economic growth, the authors note that it alone is not a sufficient condition for growth. Thus there is a need for improving basic infrastructure (both social and physical), for which the government needs to boost public spending by cutting government consumption expenditure but maintaining capital spending. Despite the fact that some of these issues are not well incorporated in the models appraised in this book, the issues that are discussed would be of immense significance for policy-makers and researchers alike.

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The Institutional Economics of Foreign Aid. By Bertin Martens, Uwe Mummert, Peter Murrell and Paul Seabright with a foreword by Elinor Ostrom. *Cambridge: Cambridge University Press,* 2002. Pp. 201. £40/US$60. ISBN 0 521 80818 9

An issue often discussed amongst both academics studying development policy as well as practitioners in foreign aid is why foreign assistance often does not achieve the goals set out by the donor community. The authors of *The Institutional Economics of Foreign Aid* argue that institutional problems may be one of the main reasons for such under-performance. Intuitively, this argument is striking: one of the main characteristics of foreign assistance is that those who provide it – the donors, usually based in industrial countries – are separated from those who benefit from it – the beneficiaries in developing countries. Such separations may include geography, language, and culture. Therefore, delivering foreign aid is a complex and multi-stage process, hampering performance measurement and evaluation.

The four studies presented in this book use a common methodological approach, applying the toolkit of agency theory. The authors attempt to explain how formal and informal rules of behaviour of the actors involved in the delivery of foreign aid affect the outcomes of aid programmes, especially those programmes dealing with institutional and policy reforms in beneficiary countries.

Delivering aid through multilateral, bureaucratically structured agencies may have implications for the outcome, as these institutions provide a very special set of internal incentives. Seabright argues that in a world characterised by multiple principals, multiple tasks, and multiple agencies, concentrating on inputs rather than outputs is a rational strategy for the agency. This goes hand-in-hand with an over-reliance on formal rules as against the exercise of sound judgement. The author concludes that multilateral institutions are in a particularly good position to develop transparent project management procedures and to implement complex programmes for which bilateral aid agencies do not have the size or capacity.

The process of implementing foreign aid projects administratively can be described as a series of contracts between different institutions – donors, contractors, beneficiaries, and evaluators. In his formal analysis of the contractual relations between different actors in institutional reform projects, Murrell focuses on the roles of an independent contractor and of beneficiaries. He thereby addresses theoretically the question of whether donors should prefer control over project activities or embeddedness of the project for the success of externally induced reforms. An interesting finding resulting from this analysis is that the presence of evaluation would change incentive structures for both contractors and recipients.

Does foreign aid matter at all in reforming institutions in developing countries? More specifically: Can externally induced reforms contribute to policy or institutional change? This crucial question is addressed by Mummert, with special reference to market reforms. The analysis focuses on endogenous processes that determine the effectiveness of institutional reforms, especially when conflicting formal norms and informal rules of behaviour exist. The author concludes that there is a strong case for inducing institutional or policy reforms externally, as they can complement the existing legal framework. This is particularly true for aligning social norms and laws: easy when it comes to business, very weak with regard to oppressive social norms

However, the success of reform processes depends critically on the nature of the norms introduced (prescriptive versus proscriptive) and on the social capital of the benefiting society, that is basically, the capacity to incorporate and accept legal changes. This is particularly true for fragmented societies.

Aligning incentives of politicians, donor agencies and suppliers (for example, consultants) is a crucial factor determining success in public institutions in general. In his assessment of the role of evaluation in foreign aid, Martens applies this common agency problem to development aid and concludes that an intelligently designed evaluation system can at least reduce the lack of information feedback from recipients to donor agencies, and can contribute to increasing performance of both suppliers and donors.

In his policy conclusions, Martens turns to the question of comparative advantages between the common institutional arrangements occurring in foreign aid (that is: bilateral versus multilateral agencies; finance through taxpayers' money or through capital markets).

The underlying question explored in this book is why international foreign assistance rarely achieves the goals set out by the donor community. This matter is of great interest, both academically (as we will see) as well as for aid practitioners.

In sum, this book provides a thoughtful assessment of the institutional constraints to foreign aid. It contains an excellent analysis of the contractual relations between the actors in foreign assistance, based on a consistent methodological approach. Apart from its academic consistency, the subject in general is highly relevant, as the current debate on modernising foreign aid shows.

However, I have three criticisms. First, the book focuses very much on one specific model of providing foreign aid. This is best described by contractual arrangements that are characteristic of the European Union. While this model can be used easily for analysing multilateral institutions, the studies do not investigate in any depth the mechanisms and instruments of bilateral assistance or foreign aid provided by NGOs. Secondly, institutional economics deals with incentives and persons. The analysis fails to analyse fully the motivational aspects for the staff of foreign aid institutions; especially when it comes to NGO work, intrinsic motivation may help a lot more than evaluation. Thirdly, although analytical standards are very high, the book would have gained a lot if the excellent analysis had been accompanied by greater elaboration of policy implications and more drawing out of the insights for the future design of foreign aid projects and programmes.

Graduate students and teachers, as well as development practitioners, will find much of interest in this book. In particular, I recommend the contribution of Mummert on embedding foreign-induced institutional reform projects into the local institutional world, and Martens' outlook on the comparative advantages to colleagues from foreign aid institutions of different kinds of institutional arrangements on the donor side.

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The Success of India's Democracy. Edited by Atul Kohli. *Cambridge: Cambridge University Press*, 2001. Pp.xiv + 298. £14.95/US$21.95 and £40/US$59.95. ISBN 0 521 80144 3 and 80530 9

Writings on democracies in the Third World provide an evaluation based on Western liberal democracy as the norm. Most tend to be dismissive of 'democratic experiments' in undemocratic societies such as India. Writers in this collection challenge this and argue for a more sophisticated analysis of India's democracy. The vital question that guides the contributors each with different perspectives is how has democracy taken root in India in the face of a low-income economy, widespread poverty, illiteracy, and immense ethnic diversity. Instead of adopting an economic determinism, the writers focus on the distribution of power within the Indian polity. They argue that especially two dynamics of this distribution – first, the balance between the forces of centralisation and decentralisation and second, the interests of the privileged and the dignity of the marginalised – has led to what can be seen as the success of the democratic experience in India. The essays are gathered around the broad themes of the origin, institutionalisation and deepening of democracy.

Sarkar's challenge to the notion that democracy is a gift of the British Raj to India is timely as we are witnessing nostalgia for empire and paean for the 'overall' positive impact of British imperialism in the public and popular discourses in the UK. Dasgupta and Manor analyse the Indian federal system, while Mitra studies local government in some states. Lloyd and Susanne Rudolphe focus on the role of the Indian constitution and constitutional institutions such as the Election Commission, the presidency, and the judiciary as a democratic safeguard. Basu makes an interesting observation about the strategic moves by the BJP in presenting itself as a party of the right or a centrist party. Basu's fears that the BJP's moderation is by no means irrevisible is shown by the recent re-election of BJP in Gujarat (in the aftermath of a severe communal riot in which the governing party clearly benefited from its active role in abetting massacres of Muslim minority) and the party soul-searching that followed it. Weiner provides an interesting study of the caste politics in terms of politics of dignity. Bardhan argues that equity politics – 'passion for group equity that rages among the common people in India' (p.226) – has adversely affected development and democracy. Katzenstein and her co-authors highlight the positive role of social movements in deepening democracy in India.

Indian democracy has remained precisely as Kohli points out in his introduction – 'radical in tone, conservative in practice' (p.2). Unfortunately, instead of adopting a critical attitude and doing a counter-memorialising reading, most writings are in a celebrative mode. For instance, Kohli's belief that the current institutional matrix moderates political forces of Hindutva such as the BJP (p.10) is naïve. He ignores that what we are seeing is a normalisation of extremism instead of moderation – what is seen as extremist is now seen as moderate. Most contributors presume the meaning of democracy, good governance, tradition, and modern, thus underplaying the contested character of these concepts. Some adopt a top-down approach to study Indian democracy and speak from the vantage point of elites (Bardhan's piece is illustrative where, except for three paragraphs, he goes on to blame populist democracy and pandering of equity politics for the ills in Indian democracy).

A limitation of some arguments notwithstanding, this is a good collection. Though we may disagree about the extent to which Indian leaders themselves have learnt from what Kohli describes as the lesson from India's success story – 'within the framework of a centralized state, moderate accommodation of group demands, especially demands based on ethnicity, and some decentralization of power strengthens a democracy' (p.19) – this book does make a valuable contribution to the debate. This is therefore an essential read not only for the students of India but also those of democracy.

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