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Book reviews

Paul Mosely, Jane Harrigan and John Toye, Aid and Power: The World Bank and Policy-based Lending (Routledge, London and New York, 1991) Vol. I: Analysis and Policy Proposals pp. xvii + 371; Vol. II: Case Studies, pp. xiii + 443.

This monumental work is a major contribution to our understanding of policy in developing countries, specifically as it was nudged and moulded among recipients of World Bank SALs and SECALs in the eighties. The book provides a three-part bill of fare: nine country case studies in Vol. II; an in-depth investigation in Vol. I, drawing on these case studies, of factors bearing on the design and implementation of policy reform at both the donor and recipient ends; and an empirical analysis, also in Vol. I, of the effectiveness of such reform. It is this third component that invites the closest scrutiny, since empirical results and numbers have the greatest susceptibility to use and misuse by assorted interest groups, in an issue of such critical economic concern to the many million residents of developing countries.

The empirical analysis in turn consists of three components: a comparison at the aggregative level of macroeconomic performance in the recipient group as compared to non-recipient developing countries; a regression analysis of the yearly performance of nineteen recipients in a designated period (1980–86), based on pooled time series and cross-section data; and finally country simulations comparing actuals to assorted counterfactual alternatives, limited to two recipients, Malawi and Morocco. The first approach is of no more than passing interest, as the authors themselves readily concede. The regression analysis, by contrast, is of central interest; but there are unfortunately several problems here at the levels of both specification and inference. The pooling of cross-section data across countries with time-series data on each country, clearly done in a bid to expand degrees of freedom, carries a number of problems in its wake. Finance disbursed (SAL) and compliance (CI) in concurrent and lagged periods are specified as independent explanatory variables, despite the build-up of the preceding chapters on bargaining and implementation to the conclusion that SAL_t is a function of CI_{t-1} (indeed, it is the burden of table 5.6 to establish precisely that) and also of SAL_{t-1}. The specification of compliance as a variable capable of *yearly fluctuation* leads to anomalous cases such as that of Pakistan, for example, where the compliance index was at the maximum value of 3 in all years except 1984, when it was zero only because the SAL inflow that year was zero; but structural reform is surely cumulative in its impact, and unless the

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reforms previously introduced had actually been reversed that year in Pakistan, would have had the same underlying impact in 1984 on GDP and other variables as in previous, or succeeding, years. Thus the separation of the effects of finance and compliance, which is a principal objective of the exercise, is not achieved. The variables upon which the impact of finance/ compliance is estimated are confined by the authors, in a spirit of fair play, to the declared objectives of the World Bank's structural adjustment programme such as growth and export performance (and to exclude equity for that reason, although some of the case studies and the simulation exercise for Morocco do not neglect the issue). Extending the spirit of fair play, it can be argued that the results of structural adjustment be assessed with respect to the expected time horizon of its impact, which in all explicit statements of objectives by the World Bank is described as medium-term. A maximum lag of two periods, understandable given an observation period of seven years, will clearly not capture any effects that show up with a longer lag, which could certainly be expected from reforms with a supply-side focus; factors of production have to move – never at the best of times a quick process. Altogether, a simpler but better specified cross-sectional exercise, with finance and compliance taken cumulatively, might have been more instructive despite the limitation on number of observations (and indeed one such, confined to impact on GDP, is reported in passing in the introduction to Vol. II).

Although the estimated equations along with the underlying data are presented in sufficient detail for the informed reader to make his own judgements, the results are often reported in summary tables and text with no attention to the statistical significance of the coefficients. An example is table 7.5, and this sentence (p. 219): 'In summary, the results derived from the estimated export growth rate equation indicate that the inflow of Bank finance has a strong negative effect on export growth rates in the immediate period, but a positive lagged effect which emerges between one and two years later'. But not one of those lagged coefficients was significant at probability levels tested for by the authors, and only one would have been significant even at the 10% level. The sign of an insignificant coefficient does not matter, but the sign of a significant coefficient does; there is no evidence from table 7.6 that lagged compliance caused 'an improvement' in export performance (p. 228) since the relevant coefficients, while certainly significant, were negative. Again, the net impact summing across finance and compliance (tables 7.4 and 7.5) can be assessed, even in direction, only when the sums of the coefficients have been tested for significance. Finally, it is emphatically not the case, as reported in the conclusion, that the regressions establish a negative impact on investment, since none of the coefficients were significant.

The country simulations for Malawi (confined to evaluating the impact of agricultural price policy on the smallholder sector) and Morocco (covering the entire economy) draw on computable general equilibrium models deve-

loped under the auspices of the World Bank and OECD respectively. There is no substitute for country-specific models for the empirical assessment of structural adjustment, and the book would profit from a replacement of the regression chapter with more simulation exercises for other countries. The results for the incremental impact of World Bank sponsored reform in each case will clearly be a function of the specification of the hypothetical counter-factual. This task was apparently simplified in the Malawi case by an explicit statement of government preferences, and yields the astonishing result that full compliance would have been worse for external balance than zero compliance, but it comes out of a model which, at least as here presented, has no provision for changes in the cropping pattern in response to the changed configuration of prices. The model for Morocco is very comprehensive. Morocco appears to have been a case of high compliance with respect to a wide range of conditions, with satisfactory short-run impact especially on external balance. The counterfactual here is not what would have happened in the absence of compliance, but rather what would have happened with fuller reform. But there is some avoidable confusion in the presentation of the results; the base run designed to 'track the actual evolution of the Moroccan economy during the early 1980s' is labeled E-1, but it excludes elements of reform actually implemented such as tariff reduction; elsewhere, E-6 is described as corresponding to the actual, and E-1 is termed the zero compliance case.

The segment of the book (Parts I and II of Vol. I) which develops the circumstances leading to the external balance crises of developing countries in the eighties, the parallel intellectual developments that led to the formulation of the World Bank position on policy reform, and factors bearing on the bargaining outcome between donor and recipient, and on implementation and sustainability, has some excellent passages. Readers looking for a condemnation of the World Bank as ill-intentioned and monolithic will be disappointed. The authors make explicit their basic acceptance of the need for policy reform, and exhibit a keen understanding of the bureaucratic and political divisions at the donor end no less than those at that of the recipient. Sensitive issues such as advantages accruing to recipients of geopolitical importance to the U.S. are treated with objectivity and discrimination. There is possibly no other treatment so comprehensive of these issues, and the book deserves to be widely read. For the same reason, it is deserving also of a revised edition, in which some lapses of internal consistency are attended to. Turkey, Ghana and Thailand are cited as the three successes in which reforms went farthest; yet Ghana is classified in table 5.5 as a *high-slippage* country with 42% slippage, and in the very next table back in the low-slippage (25–30%) class. SECALs are seen in this section as an intermediate punishment for slippage on SAL conditions, although earlier in the book SECALs are seen as a general and non-selective move to avoid

the problem of bigness with SALs and to avoid the SAL requirement of an accompanying IMF stabilisation programme. There are also problems with the equations in some of the technical sections. To take only one example, in the game theoretic formulation of the bargaining between donor and recipient (appendix to chapter 3), the donor will risk non-compliance unless (1) > (2), not (1) < (2), and equation (2) is incorrectly stated. Also, it is not quite clear why in the full compliance case where $p=1$, the utility loss to the recipient from compliance should apply to *all* of T_{ij} and not just to the excess of T_{ij} over T_j, as is the case for partial compliance when $p<1$. The perception of $T_{ij}-T_j$ as coercive does not differ between the two situations, which differ only in the value of p. There is a similar lack of symmetry in the treatment of the donor. The numerous typographical errors in the payoff matrix act as a further obstruction to the reader who wishes to divine the intentions of the authors.

The policy reforms suggested in conclusion are unexceptionable, and the case studies in volume II argue consistently for more country-specific and less uniform prescriptions, with more attention to the state of the physical infrastructure and greater willingness to prescribe an enlarged corrective role for the State if need be, in place of a blindly 'pricist' approach; the excellent case studies of Malawi and Guyana in particular highlight this need.

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A.S. Bhalla, Uneven Development in the Third World: A Study of China and India (MacMillan, London, 1992) pp. xix + 353.

Uneven development is an important issue in economics. Perhaps there are grounds for government intervention in the economy if a large part of the population in a particular economy does not enjoy the fruit of economic growth and development. Also, policies intended to stimulate growth and development may not be desirable if a large part of the population is left behind.

Bhalla's book on *Uneven Development in the Third World* is a heroic attempt to shed some light on this issue. This book considers two countries, India and China. Any hopes for generalizations to other countries, which the