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Book Review — Digitized Version

[Book Review of] Cardoso, Eliana ..., Latin America's economy: diversity, trends, and conflicts, Cambridge, Mass., MIT Press, 1992

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LITERATUR – LITERATURE

REZENSIONEN – BOOK REVIEWS

Cardoso, Eliana, Ann Helwege, *Latin America's Economy: Diversity, Trends, and Conflicts.* Cambridge, Mass., London 1992. The MIT Press. XXIII, 326 pp.

This new textbook provides an overview over the economic problems that most Latin American countries are facing today. The core chapters deal with industrialization and trade policy, the foreign debt crisis, macroeconomic instability, poverty, and agrarian reform. In each case, the underlying economic issues and the ensuing policy debates are discussed in a non-technical fashion. Extensive use is made of country examples to illustrate the complexity of the issues, as well as the diversity of country experiences. The three introductory chapters cover more general themes: The first describes the cultural and economic diversity among, as well as within, Latin American countries. An informative summary is then given of Latin American economic history since colonization. In the third chapter, some of the more prominent theories that attempt to explain underdevelopment in Latin America, ranging from dependency to *laissez-faire* ideology, are briefly characterized in order to clarify the intellectual underpinnings of conflicting policy prescriptions.

The book assumes no previous knowledge of economics. Considerable care is taken to explain even fundamental concepts like the gross domestic product. The authors present a large amount of relevant material in a style that is both easily accessible, and sufficiently analytical to convey a basic understanding of the issues involved. At times, however, the authors' attempts to liven up their presentation by particularly graphic examples appear somewhat misplaced. The story of a young man being shot in the head during the December 1989 riots in Venezuela, for instance, hardly serves to clarify the effects of, or viable alternatives to, the IMF program instituted at the time (p. 173). It is also debatable, to say the least, whether fewer trees would be felled in Latin America if there were no debt crisis. After all, exports of wood account only for a very small proportion of the destruction of rainforests on this continent (p. 109).

Such polemic undertones apart, the authors aim at presenting a balanced view of the many controversial issues. Frequently this is done by explicitly juxtaposing the pros and cons of particular policies (see Box 6.1 on p. 149 dealing with the "monetarist" and "structuralist" views on inflation). A fair representation of opposing viewpoints is clearly of great importance in a textbook. In my opinion, however, it would be desirable sometimes to have a clearer synthesis of the conflicting arguments. Otherwise readers might be left with the impression that there is essentially a muddle of arguments, and everybody is free to choose whichever policies they please on the grounds of their ideological predispositions. This problem is particularly acute because, without formal models, readers lack the analytical tools to form their own, considered judgements. In my opinion, some policies have stood, and others have failed the test of time (and on yet others the jury is still out). It would be helpful if this were brought out more clearly in the book.

As an example, consider the authors' main conclusion on stabilization strategies that "(the) goal of stabilization with growth remains elusive", and that perhaps only the

next generation will develop a strong enough social consensus to avoid inflation from the outset (pp. 199 f.). While this assessment may be correct, it hardly answers the question of what Latin American governments can do now to bring down inflation, and to lay the foundations for economic growth in the medium term. Yet this is exactly the challenge for economists and policymakers alike in Latin America today. Besides, stabilization is essentially a short-term issue, whereas economic growth and development are long-term objectives. To ask for stabilization with growth in the short run might not only be asking too much; it might also be asking the wrong question.

Of course, in different places throughout the book, the authors do present an indepth discussion of the causes of inflation, and of the merits and shortcomings of various stabilization programs. The text would probably gain in coherence if the three chapters dealing with macroeconomic instability (on inflation, stabilization, and economic populism) were consolidated into a single one. In the process, the lengthy description of the stabilization experiences of various individual countries could be streamlined. Furthermore, it might be helpful if all chapters were concluded with a section that summarizes the key points, and succinctly sets out the policy implications. These summaries might well be more comprehensive than the present concluding sections, for example, in Chapters 6 and 7.

A similar problem arises due to the separate discussion of closely interrelated problems in the individual core chapters. While some separation is probably required by didactic considerations, it tends to obscure the interdependence of trade and exchange rate policies, macroeconomic stabilization, debt problems, and capital flight. At times, it even leads to inconsistencies. The suggestions on how to reverse capital flight, for instance, emphasize stricter controls on the grounds that high real interest rates are bad for investment, and that devaluation lowers the living standard of the workers (pp. 121 ff.). In the chapters on inflation and stabilization, however, it is pointed out that capital flight rises with inflation because confidence in the local currency is eroded (p. 139), and that realistic, rather than overvalued exchange rates are called for. Similarly, fast liberalization of foreign trade is criticized because it may have adverse effects if the exchange rate is overvalued due to capital inflows (p. 101 f.). At this stage, the discussion of trade liberalization could usefully be linked to that of exchange rate policy, and especially the (ill-advised) 'tablita' experiments of the 1970s. Perhaps it would be useful to elaborate such linkages in the framework of a general discussion of policy implications in an additional, final chapter.

A textbook on Latin America raises the question of what sets this continent apart from other developing regions, especially fast-growing East and Southeast Asia. This question is of particular relevance because it is increasingly being asked by Latin Americans themselves. The authors point to the common colonial heritage and its implications for land distribution and discrimination against indigenous peoples. Beyond this, it might also be interesting to discuss in greater detail how this shared experience has affected the role of the state in Latin America. In comparison with fast-growing Asian countries, why have many Latin American governments been relatively inefficient at ensuring macroeconomic stability and implementing development-related policies like agrarian reform, education, and progressive taxation? Why have policy instruments like infant industry protection, which were used in both Asia and Latin America, produced different results in the two regions? It seems likely that an evaluation of Asian experiences could throw some interesting new light on problems of governance in Latin America, not least on the political economy of economic policymaking.

Overall, this is a valuable first printing of a textbook which, one would hope, will see more, and possibly revised, editions. Given its non-technical character, it should be particularly suitable for students in area-studies courses who specialize in subjects other than economics. Students of development economics may find the book useful as a

quick introductory guide to the facts of Latin American economic development, and to the corresponding policy debates. Although the text is apparently aimed primarily at a North American audience, students in Latin America and elsewhere will derive equal benefit from it.

Matthias Lücke

Claassen, Emil-Maria (Ed.), *Exchange Rate Policies in Developing and Post-Socialist Countries*. An International Center for Economic Growth Publication. San Francisco 1991. ICS Press. XIX, 443 pp.

The exchange rate regime is at the center of discussions about appropriate reform strategies for post-socialist countries as it has always been the case for traditional developing countries. In the light of the controversy about the comparability of the two country groups, it is to be appreciated that the thirteen papers included in the conference volume discuss the question of the optimal exchange rate regime for both post-socialist and traditional developing countries. The book contains a discussion of most of the relevant determinants of an optimal exchange rate regime. The technical analysis in the text is limited to graphical presentations (with only a few exceptions). The book is therefore recommendable for economists and policy-makers looking for an introduction into the topic. But especially for this type of reader it is always difficult to find the main lines of reasoning. The introduction given by *Claassen* (Ch. 1) is helpful because it gives a good summary of all arguments but it fails to make up a story and to address the most interesting question: are there different conclusions for post-socialist and traditional developing countries?

In order to answer this questions, I would recommend to start reading with the contributions of *Mundell* (Ch. 2) and *Williamson* (Ch. 14) because they can be interpreted as a general view, i.e. the arguments provided are valid for all country groups. *Mundell* demonstrates in a general equilibrium setting that an adjustment to real shocks or the stabilization of the price level is possible with fixed exchange rates as well as with flexible exchange rates and a money supply target. *Mundell's* conclusion that in order to generate confidence in money "... (t)he money supply will not suffice as an anchor..." and "... (t)he best means of establishing this anchor is to make the currency convertible" (pp. 40 f.) is only based on his observation that "... flexible exchange rates have not been successful in developing countries" (p. 40). *Mundell* proposes a narrow concept of convertibility, i.e. convertibility of domestic money at a fixed price into a stable currency (currency convertibility) and into gold (asset convertibility). The implication is that monetary policy is completely passive and dependent on (gold) reserve flows and the Central Bank acts as a currency board.

Mundell's conclusion is at least based on a benign neglect of bad experiences with fixed exchange rates in developing countries. It is sufficient to mention the bad experience of the Southern Cone countries at the beginning of the 1980s. *Williamson* raises additional doubts from a general perspective whether a fixed exchange rate is an optimal exchange rate regime. First, "(w)here the inflation rate has too much momentum to be stopped by an exchange rate commitment... , I recommend a real target..." (p. 401), i.e. a real exchange rate target. Otherwise inflation is reduced at the cost of external disequilibrium. Second, "(e)ven if the target is initially set correctly, it will need to change if a permanent real shock creates a need for payments adjustment" (p. 401). The implicit assumption made by *Williamson* is that the prices of non-traded goods are not as flexible as (implicitly) assumed in *Mundell's* general equilibrium setting. *Williamson* goes a step further in arguing that the equilibrium real exchange rate has to be estimated. This is of course nearly impossible even for developed countries with relatively stable economies. Additionally, it is not necessary to calculate a target. A