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Book Review

Book Review: Capital and Collusion: The Political Logic of Global Economic Development

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Hilton L. Root (2006):

Capital and Collusion: The Political Logic of Global Economic Development

Princeton University Press, Princeton and Oxford, 280 pages, ISBN 0-691-12407-8, \$ 35.–

Great disparities between rich and poor nations remain despite the disbursement of a trillion dollars over the past fifty years to needy regions. In “Capital and Collusion: The Political Logic of Global Economic Development”, HILTON L. ROOT attributes this to the divergence between uncertainty and risk in many parts of the developing world. He illustrates his point by comparing East Asia and Latin America as well as India and China and by considering the case of Pakistan.

While uncertainty refers to events about which knowledge is imprecise, risk relates to events that can be assessed with some degree of certainty. Only if uncertainty can be transformed into risk will countries grow rich. This, however, requires the existence of an institutional matrix that enables individuals to manage risk, ROOT explains. In his book, institutions are to be understood in the sense of the New Institutional Economics, i.e. as the formal and informal rules of the game in a society that determine the way in which human beings engage in economic, political and social activity.

The idea that institutions matter for development is, of course, hardly novel: it has been explored by DOUGLAS C. NORTH – among others – from the late 1980s onwards. Nevertheless, it did take practitioners in international financial organisations some time to incorporate this insight into their lending policies. ROOT was one of the key contributors to the effort of putting institutions on the agenda of the World Bank and the International Monetary Fund in the mid-1990s, helping them to move beyond the infamous Washington consensus.

The sources of uncertainty institutions need to deal with lie in the economic, the political and the social sphere. Poorly defined property rights, for example, distract investment as HERNANDO DE SOTO most prominently argued. The same result can be observed in the case of lacking incentive compatibility for political decision makers between their personal gains and social welfare; an idea explored by BARRY R. WEINGAST in his work on market-preserving-federalism, for instance. Social origins of uncertainty, however, have received little attention in the institutionalist explanation of underdevelopment so far. ROOT fills this gap. He certainly has a point: Unless mechanisms exist that enable pro-poor growth, i.e. that let a large number of people share in the (potential) benefits of reform, that compensate losers and that cushion the effects of adverse market outcomes at the individual level, public support for reform will be low.

The implications of ROOT's argument for the sequencing of reforms in developing countries are profound. They point to the need of introducing social security schemes and of providing access to health as well as education before the liberalisation of the economy and the privatisation of state-owned assets. In other words, ROOT shows that building a “constituency for change” is just as important as getting the institutions and macroeconomic policy right. This is somewhat the reverse of the trickle-down line of reasoning. It suggests that moderate social democrats in Latin America, for example, such as Brazil's LUIZ INÁCIO, LULA DA SILVA and Chile's MICHELLE BACHELET, are on the right track.

What a pity then that ROOT does not devote more room to an in-depth scrutiny of the social origins of uncertainty and, especially, ways to counter them. What about conditio-

nal cash transfer schemes, for example, that have been employed with some success in countries such as Mexico or Brazil, providing cash to poor families under the condition that they keep their children in school until a certain age or that they have regular preventive medical checkups? Instead, ROOT mainly focuses on a normative analysis of the institutional matrix in developing countries, discussing in great length the importance of incentive compatibility for political decision makers to enable them to credibly commit to public policy, an independent judiciary as well as meritocratic recruitment and promotion in the public sector. All of that is stale news that has featured in every World Development Report in one variation or another since 1997. ROOT's answer to the interesting question how powerful political coalitions that only benefit a few insiders can be broken up without the use of external force, on the contrary, remains elusive. This is unfortunate, since implementing institutional matrices that truly foster pro-poor growth is the greatest challenge development scholars and practitioners are facing today. Furthermore, ROOT largely passes over the case of Africa, the world's main problem child. This leaves the analysis somewhat incomplete.

Nevertheless, ROOT's book is still worth reading. The basic notion of welfare economics that public welfare depends as much on the distribution of the pie as it does depend on its size has long been neglected by development scholars who have focused exclusively on allocative considerations. ROOT brings the distributive dimension back into the discussion and furthermore demonstrates that allocative as well as distributive aspects of public welfare are two sides of the same coin. So if you are interested in self-sustained development in the long-run (despite the fact that you will be dead by then, of course), that should clearly get you thinking.

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