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Book Review — Digitized Version

[Book Review of] Development policies in natural resource economies, Jörg Mayer ... (eds.): Cheltenham, Northampton, Elgar, 1999

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Although I found some of the papers interesting to read (e.g., Marc Cowling's summary of his study on the "Entrepreneurial Society", and Gavin Reid's report on his econometric investigations on small firms in Scotland) and discovered a few pieces of evidence that are, at least for me, both interesting and new (e.g., the discussion of the Norwegian industrial district Jaeren in the paper by Bjorn Asheim), I do not consider this volume as required reading for economists dealing with industrial policy.

Joachim Wagner

Mayer, Jörg, Brian Chambers, and Ayisha Farooq (eds.), *Development Policies in Natural Resource Economies*. Cheltenham, Northampton 1999. Edward Elgar. Published in association with UNCTAD. XIII, 212 pp.

This UNCTAD volume presents a collection of essays that covers a variety of topics around the issue of which factors determine the development prospects of natural resource-rich countries. The Chapters assembled by Jörg Mayer, Brian Chambers and Ayisha Farooq deal with five separate topics: the link between natural resource endowment and economic growth, the speed of technology and human capital accumulation, the impact of trade liberalization, the difference between mineral- and agriculture-based economies, and the sustainability of economic activities. Despite the unifying theme, it is difficult to see, in some cases, the connecting line between the different essays. Many readers will probably do a selective reading of the book unless they are interested in a very broad view of many fundamental issues confronting natural resource economies. Certainly, the 11 essays of the main part of the book, together with the introductory and concluding essays by Mayer, provide a broad set of empirical results that can answer some of the most pressing questions in the area of development policies in these economies.

The main part of the book starts with two essays that provide an overview on two of the most important issues in resource-based economies. The opening essay by *Jefrey D. Sachs* and *Andrew M. Warner* provides an interesting twist to the literature on the choice of policies by looking, both theoretically and empirically, at the political economy determinants of the apparent "curse" of natural resources. The evidence suggests that resource-intensive economies, in general, tend to select more inward-oriented trade policies to promote industrialization despite Dutch-disease effects and have poor scores on bureaucratic efficiency. By contrast, successful resource-abundant economies, such as Malaysia and Mauritius, have focused its policy on export promotion rather than attempting to develop a domestic manufacturing base behind protectionist walls. The next essay deals with the determinants of export patterns. *Adrian J. B. Wood* presents evidence that differences among countries in the composition of their exports (the shares of manufactures, processed primary and unprocessed primary products) are rather well explained by inter-country differences in the availability of skills, labour and land – in accordance with predictions of Heckscher-Ohlin trade theory. He argues that skill acquisition is the key to development, a proposition which is consistent with most of what is known both about the causes of the cross-sectional gaps in income between rich and poor countries and about East Asia's economic miracle. By raising the skill-land and skill-labour ratios, investment in education and training will shift comparative advantage and output structure away from unprocessed towards processed primary production, and away from primary production towards manufacturing, and so speed up learning-by-doing. However, where natural resources are abundant relative to labour and skill, these supply side policies may have to be complemented by appropriate demand side policies since otherwise producing according to the prevailing comparative advan-

tage can trap a country in a low-skill equilibrium. Wood sees here a case for using restrictions on trade or industrial policy to promote skill-intensive sectors and create the necessary demand for skills. However, the lack of an analytical framework where hypotheses are tested makes the interpretation of this conclusion difficult. As Mayer points out in the introduction (p. 7), trade liberalization may instead be the appropriate complementary demand side policy "because it removes the distortionary effects of trade barriers which hamper product upgrading and facilitates the transfer of technology, thereby increasing the demand for skill-intensive technologies."

The second part of the volume presents different case studies on national experiences with non-renewable natural resources. Chapter 4, by *Richard M. Auty*, provides a transition to this second part. The author evaluates the lessons of Indonesia's successful passage through all three stages of the mineral cycle (youthful, early-mature, late-mature) and then compares it with the experience of mid-income mineral economies – two smaller ones (Trinidad and Tobago, and Botswana) and two larger ones (Chile and Peru) – as they adjusted to the mature stage of the mineral-led cycle. Auty stresses the importance of appropriate macro policies which need to be adjusted in line with a country's passage through each stage of the mineral cycle. Moreover, diversification of the economy is easier not only the less distorted the economy is, but also the broader the non-mining resource endowment is, the larger the domestic market and the lower the real wage are. These factors may explain the superior performance of Indonesia, which enjoyed all three structural advantages. By contrast, the transition to maturity has been especially difficult for the smaller, less endowed economies, whose large mineral revenue streams have propelled them to a mid-income level from which they must diversify into industry, having leapfrogged the cheap labour stage of manufacturing-led growth. Two more chapters look at non-renewable natural resources. *Modise D. Modise* (Chapter 5) discusses how Botswana, whose economy depends heavily on the exploitation of diamond resources, has progressed from being among the least developed countries in the world to a lower-income developing country with a stable and fast growing economy. He stresses the exceptional features of diamonds as a resource and discusses practical ways of managing mineral revenues with a view to avoiding Dutch-disease effects. *Abbas Alnasrawi* (Chapter 6) analyzes the development experience of the oil-based economy of Iraq until the mid-1990s, focusing on the use of oil revenue and the impact of external shocks on the Iraqi economy.

The third part contains country case studies related to renewable resources. In Chapter 7, *Raanan Katzir* outlines Israel's transition from extensive traditional agriculture to intensive export-oriented agriculture highlighting the development of a region-specific agricultural technology and the establishment of an institutional framework which guarantees close interaction between the government, farmers and producer organizations as means to maximize the contribution of agriculture to the economic development of the country. *Rabbi Poobal Royan* (Chapter 8) discusses the transition of the Malaysian economy from primary production to resource-based industrialization. This transition relied essentially on technological innovation in the natural resource sector and a flexible adjustment of economic policies to changing circumstances and needs, which has been based on the perspective that the joint development of the natural resource sector and resource-based manufacturing offers dynamic complementarities. In Chapter 9, *F. Phillip Muema* deals with Kenya's exports of horticultural products, which have been among the few categories in the natural resource sector to have experienced dynamic demand in the world markets over the past few years. Finally, the closing chapter of this part (Chapter 10) by *Samuel K. Appiah* examines the evolution of the forestry sector in Ghana, focusing on competitiveness in wood processing, sustainable forest management and the role of institutional factors, such as the competitive allocation of logging rights.

The fourth part of the volume turns from the macroeconomic and sectoral perspective to the regional level. In Chapter 11, *Ligia Noronha* looks at the economic, social and environmental impacts of mineral extraction in the Indian province of Goa, arguing that local communities are burdened with the adverse environmental and social impacts of resource exploitation, while the main economic benefits of the latter accrue to the national level. *L. T. Chiisike* explains in Chapter 12 the rationale, objectives, institutional setup and achievements of the Communal Areas Management Programme for Indigenous Resources (CAMPFIRE) in Zimbabwe, which is regarded as one of the most successful resource-based management systems for poor rural populations in Africa. Finally, in the fifth part, *Jörg Mayer* discusses salient features of the issues addressed in this volume and draws conclusions for development policies in natural resource economies.

This volume has produced an interesting combination of essays on some of the basic issues around policy choice in natural resource economies. Although one misses more coherence between the chapters, the book provides interesting insights into the growing literature on development policies in natural resource economies and plenty of institutional knowledge on a number of economies.

Manfred Wiebelt

Poterba, James M., and Jürgen von Hagen (eds.), *Fiscal Institutions and Fiscal Performance*. Chicago, London 1999. Chicago University Press. IX, 388 pp.

The volume, a National Bureau of Economic Research Conference Report, contains papers presented at a conference in Bonn. Its title “Fiscal Institutions and Fiscal Performance” should be interpreted narrowly: Rather than covering the whole range of “fiscal” problems, the papers concentrate on the relationship between *institutions* and *public debt*. If one shares the reviewer’s opinion that volumes of the type “narrow and deep” are preferable to those of the type “diverse and superficial”, this focus is clearly an advantage. And the articles, written mostly by first-rank researchers in the field, are deep indeed.

The volume is virtually divided into two parts. The first part consists of the editors’ introduction (*James M. Poterba* and *Jürgen von Hagen*), a critical review of the literature (*Alberto Alesina* and *Roberto Perotti*) and an interesting theoretical paper by *Andrés Velasco*. The second part, by far the larger one, comprises 11 papers presenting empirical evidence as well as case studies.

Put simply, the papers deal with three principal questions: Is public debt a good thing? Why do we observe public debt in reality? And how can the enormous international and interregional differences in public debt per GNP be explained? After the descent of Keynesian economics, the answer to the first question is generally in the negative. Yet, according to an argument by Barro, public debt can be used in principle to stabilize tax rates and thus to reduce the deadweight loss of taxation. The standard answer to the second question has become that the budgetary process suffers from a common pool problem: In a society with many interest groups, in a cabinet with many ministers, or in a state with many provinces, each part underestimates the costs of a specific public project because these costs are mostly borne by others. This fiscal externality approach to public debt, however, is not entirely convincing, because it only explains high *levels* of government spending and taxes, but not a large *difference* between these two variables, i.e., large government debt. The aforementioned theoretical paper by Velasco tries to solve this problem. The third question, regarding differences in debt ratios, is particularly interesting because it facilitates empirical research of the sort “If public debt in A is higher than in B, which institutions are responsible for the difference?”