

the age of 40. He then demonstrates the power of this technique by simulating the effects of five specific policy changes and the combination of policy changes in each of the past four decades.

These results are very interesting by themselves, rather like reading the national income accounts for the first time. The appropriate next stage of this research is to test whether these new accounts help explain the fiscal effects on a range of current economic conditions. For the moment, Kotlikoff has left this task for another day or for other scholars.

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The Development Frontier: Essays in Applied Economics

Peter Bauer

Cambridge, Mass.: Harvard University Press, 1991, 241 pp.

Peter Bauer has, for a half-century, employed a sharply critical intellect, fortified by training in economic reasoning, examination of the literature, and field researches done most intensively in Southeast Asia and West Africa, to challenge stereotypical ideas in the popular, political, and academic minds about the causes of poverty in the world.

His writings have had substantial influence. The notion that the improvement of the conditions of life of the poor requires the aggressive intervention of the state in markets has now, because of his writings, much less currency and acceptance than it did some decades ago. Since the state's intervention often had adverse consequences, he has rendered a signal service to the poor of the world.

The politico-economic environment within which he has written his papers may, among others, be characterized by following features: (1) Government policy in the poor countries has been interventionist. This has distorted the composition of economic output, diminished economic growth rates, and intensified poverty. The policy has reflected a mistrust of markets where exchanges are consensually consummated, the terms of exchange are set by market forces, and there is freedom to exit and enter. (2) Interventionist policy has been generated by a number of variables, such as the state's legal monopoly in the exercise of coercive power and the officeholders' penchant for imposing behavioral rules. (3) Public officeholders perceive their role as benign. They fail to see that their behavior can have unforeseen, adverse, and malign consequences. (4) Rule-making is often a source of income for public officeholders. Those in the community who would be privileged by a rule may be willing to pay those who exercise rule-making authority. By lobbying legislatures and officeholders, special interests secure governmental arrangements that serve them at the expense of others. (5) In most of the poor countries that were once colonies, the traditions of

control and economic intervention established by the ruling metropolitan powers survived the end of colonial rule. (6) Eastern European countries were governed aggressively by the Soviet Union and its proxies in their own countries, and an elaborate ideology of interventionist state behavior was drummed into the psyche of the population. These features served (7) to develop a set of flawed ideas that have been promoted by the intellectual communities of the poor countries and by the community of international civil servants. Those ideas have been seized by some sectors of the community to tilt policy design toward a system that produces economic rents for them at the expense of other sectors. Moreover, the academic and intellectual communities of those countries have come to be committed to central planning and versions of Fabian socialism as fundamental prescriptive components of policy. Their ideas have had a powerful influence in the design of practical governmental affairs.

The ideas produced by this environment are laid out by Bauer in chapter 17, "Development Economics: A Retrospective View." The paper, initially delivered at a World Bank lecture series, describes the standard view thus: the advancement of less developed countries depends upon supplies of capital; but this capital cannot be generated in the poor countries because incomes are low, virtually the whole of income is consumed, and profitable investment opportunities are sparse; these problems are reinforced by a lack of responsiveness to economic incentives and enterprise. The accepted view is, as Bauer notes in his summary (p.187),

if significant economic advance is to be achieved, governments have an indispensable as well as a comprehensive role in carrying through the critical and large-scale changes necessary to break down the formidable obstacles to growth and to initiate and sustain the growth process. External trade is at best ineffective for the economic advance of the less developed countries and more often it is damaging.

Throughout his long and impressive career Bauer has successfully challenged these stereotypical ideas. He does so again in this collection of seventeen essays. Six of them have been specifically written for this book. Most of the others are revised versions of papers that Bauer had previously published in academic and professional journals.

The essays all deal with experience and policy in poor countries. Within that rubric, they cover a range of interesting topics: among them, the contribution of trading to economic growth, intervention in marketing of primary commodities, price and wage controls, and price and wage effects. The essays are a balanced combination of theory and exposed experience.

They are a splendid sample of Bauer's academic and intellectual contribution to the field in which he has specialized.

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