BOEKBESPREKINGEN - REVIEWS

S. Roy, *Philosophy of Economics*; *On the Scope of Reason in Economic Inquiry*, Routledge, London, 1989. Pp. ix + 236. £ 10.99

The title of Roy's book suggests that the book covers the whole domain of economic methodology and ethics of economics. Fortunately, this is not the case. In fact, the book is basically about the question how positive and normative issues are related in economics. More specifically, whether and, if so, how positive reasoning can help solve normative debates.

There is a long-standing tradition in both philosophy and economics that normative and positive issues can and should be kept separate. In economics, this view is, for example, exemplified by Tinbergen's Theory of Economic Policy in which it is the task of politicians to set the targets of economic policy and the task of the economist is to provide the best means to achieve these targets. The image is one of an economic scientist working as a social engineer. Roy mentions other examples of famous economists (*e.g.*, Friedman in his 'Essay on the Methodology of Positive Economics') who adhere to the dichotomy between the normative and the positive realms of discussion.

In philosophy, the distinction between normative and positive analyses goes back to Hume who claimed that no normative conclusion follows from a set of solely positive premises. If a normative conclusion is drawn, then at least one normative premise has been made. In short, one cannot derive 'ought' from 'is.' If an evaluative (*i.e.*, normative) statement is made, it necessarily reflects the subjective opinion of the person in question.

So, it turns out that the views of a large number of economists stand in the tradition of Hume, a tradition he calls 'moral scepticism.' So far so good one might say, but the point of *Philosophy of Economics* is to argue against this moral scepticism. Roy takes the view that there is a good deal of objective knowledge as regards normative issues to be obtained. Contrary to the moral sceptics, Roy wants to make the case that common reasoning might solve the conflict between different evaluative opinions.

For those readers who are familiair with more recent literature on the philosophy of science, Roy's position might not seem to be very surprising. A consequence of work done by Kuhn and Lakatos, among others, is that the sciences themselves are not as 'positive' as they might appear: evaluative judgements are made over and over again. The point of Lakatos' work is that scientists who work in the same research program usually agree to a large extent on the evaluative judgements to be made, *i.e.*, those judgements are not just subjective, but *inter*subjective.

Although Roy mentions that Hume's scepticism is not confined to moral questions, but that it also extends to positive questions (the reader is reminded of the fact that Hume is also famous for his statements on the problem of induction), he basically argues in exactly the opposite direction of the above mentioned work in the philosophy of science. Roy claims that we should not take the sceptic too serious, because we 'know' (from everyday experience) that we do have a good deal of objective knowledge.

Roy's basic argument is that we should make a distinction between the question whether objective knowledge (hence, objective discussions of normative issues) is possible and the question who is supposed to have this knowledge. Roy does not answer the second question, but he tries to answer the first. Essentially, he rephrases an argument by the British philosopher G.E. Moore who claimed to have given proof of the existence of the external world. The story goes that at one time Moore raised his hands and said 'here is one hand and here is another. Therefore, we know there are at least two objects in the external world' (Roy [1989], p. 91). According to Roy, anyone who denies this claim has to refer to propositions which he would say are true of the real world and would therefore presuppose that there is a right answer to the substantive question under consideration. The present reviewer is far from convinced by this line of reasoning, because Roy puts the burden of proof on the sceptic, whereas in the initial setting the burden of proof is on the one who claims that objective knowledge is possible.

In the last four chapters of the book, Roy applies his ideas to four fields in economics: applied microeconomic policy, macroeconomic theory, mathematical economics and welfare economics. Although he makes some interesting observations in this part of the book, it is sometimes difficult to see how the discussion relates to arguments made in earlier chapters. In so far as the links with the rest of the book are clear, the line of reasoning is weakened by the abovementioned drawbacks. For example, in the dialogue on macroeconomics the classical (called 'Athenian') and Keynesian (called 'stranger') economists are engaged in a fifteen page discussion without coming closer to an agreement on the essential issues. The chapter on mathematical economics and reality is interesting and can be read on its own. Here, Roy argues that Arrow and Debreu stand in a different tradition as regards the question how mathematics refers to reality. Debreu is mainly a formalist arguing that the mathematical propositions are entirely disconnected from their interpretations. Arrow, on the other hand, has a more empiricist attitude towards mathematical economics, which can be roughly summarized by the statement that the general equilibrium model describes an empirically possible economy though not an actual one.

In short, although some parts of the book are worthwhile reading, the book as a whole suffers from some weak points in its argumentation. After reading the book, the present reviewer is still not convinced that common reasoning yields objective knowledge in economics.

Maarten Janssen

R. Buchegger, M. Hutter and B. Löderer (eds.), *Kurt W. Rothschild. Arbeitslose: Gibt's die? Ausgewählte Beiträge zu den ökonomischen und gesellschaftspolitischen Aspekten der Arbeitslosigkeit.* (Unemployed: Do They Exist? Selected Essays from the Work of Kurt W. Rothschild), Metropolis-Verlag, Marburg, 1990. Pp. iv + 320. DM 29,80

The search for causes of and solutions for unemployment has been a central theme in the work of Kurt W. Rothschild (born in 1914). The author has produced an impressive volume of work: thirteen books, more than a hundred contributions in books, a hundred essays in journals, and about one hundred reviews. The multifaceted approach in Rothschild's work can be demonstrated by the distribution of the theoretical perspectives in his book essays: labour markets as such (30); employment, inflation and the economy (34); income distribution (19); foreign policy (24); markets and price theory (21); economic growth and economic structure (21); paradigms and methodology in economics (35); general politics in economy and society (25).

On the occasion of Rothschild's 75th birthday the editors selected fifteen articles from Rothschild's work: seven on theoretical explanation, five on political opportunities, and three on societal constraints. The laudation and the overview of Rothschild's publications complete the book.

The nature and diversity of these contributions clearly represent the guiding principles in Rothschild's work: the science of economics is a social science, and it is a positive science. Consequently, the analysis and explanation of phenomena and problems related to labour markets require the use of theoretical perspectives from political science, sociology and psychology. In Rothschild's view, the necessary exchange between politics and the economy requires interdisciplinary analysis and expression of the researcher's values and beliefs. This is not taken for granted by all 'mainstream' economists. However, Rothschild is determined to demonstrate that the postulate of efficiency carries with it the values and beliefs about the conditions under which it is expected to be realised.

Rothschild often begins his papers with a 'pure' economic subject of analysis, but he displays an experienced eye for other relevant perspectives. To put it differently: Rothschild does not hesitate to cross borders between different areas of scientific knowledge. His erudition is apparent as he shows full awareness of this cross-border traffic, while retaining his modesty and avoiding bungling by keeping the economic approach central most of the time.

Many of Rothschild's contributions contain excursions into the political sciences and sociology, as well as the relationships the author tries to establish between conceptual development and policy development. This is motivated by his eagerness to develop a realistic theory of the labour market. The search process in the labour market is 'not the result of a simple optimization, but is based on a mix of... Hence, a realistic theory of the labour market has a prerequisite in a frame which holds institutional and sociological elements' (p. 42).

The significance of Rothschild's work can be found particularly in the way he approaches current issues: the author is searching for lasting determinants or basic elements of explanatory theory. The merit of Rothschild's work lies in the consistent attempt to find theoretical solutions to current issues with the help of generalized theory.

Rothschild does not shrink from giving *ad hoc* suggestions on practical aspects of policy matters, such as his proposal to prevent or reduce barriers to the acceptance of part-time work (p. 197–98). His 1978 contribution on working hours and unemployment anticipated issues of importance which are now current or will be in the future, and it still appears to occupy a central place in the dicussion on labour market policy issues.

However, Rothschild is critical of a work-time reduction policy, which in his view can be conceived of as a policy of resignation: one gives in to the idea of the impossibility of full employment. A more optimistic view of reduction of working hours leads to the idea of irreversibility, which is not attractive, since its institutionalization might create future restraints. On the other hand, the reduction of working hours has always been a policy aimed at raising human standards of living. 'Under conditions of increasing labour productivity it is legitimate to evaluate the reduction of working hours for its own sake, and not just for the sake of employment policy' (p. 199).

Rothschild is also critical of the concept of full employment policy itself and of Keynesian policy. Advocates of this policy have neglected the consequences of the Keynesian policy of full employment, *i.e.* inflation. Rothschild describes the (neo-liberal) monetary criticism as throwing the baby out with the bathwater (p. 252).

However, examples of the latter can be observed in his own work as well. This can be seen in his well-balanced analysis of changes in female labour force participation through the presentation of the indifference curves, given goods/leisure preferences, and the explanation of change in married women from a 'traditional' attitude to a more 'emancipated' view, contingent on a shift toward smaller families and induced by the spread of emancipatory ideas. Whether these types of factors are qualitatively different (in terms of their explanatory power), or, in the words of Rothschild, whether 'they are probably far more important in explaining the course of events than ... the absolute and relative movements of men's and women's wages which figure prominently in some of the 'neo-classical' models of female labour supply' (p. 125), is yet to be answered. Parity in the wages of men and women may influence 'emancipated labour market behaviour', and *vice versa*, so wage changes may be important as well. Is Rothschild inclined to simply substitute societal trends or attitudes for weighing the economic components by individuals? Does he too throw out the baby with the bathwater? There is little evidence that people decide to participate in the labour market solely motivated by 'general, societal trends of emancipation.' Is the economist overcompensating in upgrading the explanatory power of non-economic factors?

This should not be seen as a serious failing, rather it is an example of a minor overshooting by a 'cross-frontier scientist.' Although one might sometimes miss discussions in Rothschild's work in terms of concepts which are topical today (like 'hysteresis'), his contribution '"Left" and "Right" in "Federal Europe"' (on the relation between politics and economics) is another example which forecasts European problems in the near future.

The contribution of this book can be seen in its useful message, that can be summarized by G. Tichy's concise formulation of Rothschild's credo in his work: (1) the raising of major questions deserves priority over the answering of minor ones, and (2) to half-answer a question deserves priority over the complete falsification of a question.

The reader of a *liber amicorum* is obviously restricted by the editors' selection. This notwithstanding, the book offers a representative introduction to Kurt Rothschild's work and his aims.

A. Buitendam

Alberto Giovannini and Colin Mayer (eds.), *European Financial Integration*, Cambridge University Press, Cambridge, 1991. Pp. xxi + 348. $49.50

The EC's drive for further integration can be expected to have great consequences in the financial field. Some of these consequences are already visible, for instance in the form of increased merger activity and cross-participation in the banking sector and enhanced credibility of exchange rate policies pursued within the EMS. The present volume reports the proceedings of a conference held in January 1990, which was organized by the Centre for Economic Policy Research. It contains eleven articles on various aspects of European financial integration, many of them written by well-known authors. A few of the articles do not specifically relate to either financial integration (Caves' article on the motives for corporate mergers) or European integration (Hellwig's excellent survey on the role of banks in financial intermediation). Each article is followed by a brief discussion by one or two conference participants. The quality of the articles is generally high, and the discussions, although sometimes maybe a little too polite, are helpful in assisting the reader to form his own judgement on the issues raised.

After a short editors' introduction, in which they provide an interesting though somewhat forced framework for the articles contained in this book by putting them in the perspective of Leviathan *versus* optimal tax theories of government, the book starts out with five articles on financial intermediation and regulation. The central theme of Vives' contribution is that integration in the banking sector will change the focus from collusion and regulatory capture to competition, which will, however, remain limited due to the presence of economic barriers to entry. He expresses his concern that application of the home country control principle for banking supervision, coupled with the application of the host country principle for deposit insurance, gives regulators incentives to set very liberal standards to provide national banks with a competitive edge abroad. If a disaster happens, foreign taxpayers will foot the bill. This concern seems to be unjustified. The adoption of common solvency requirements, in addition to the fact that regulators are primarily concerned with the health of their national banks, is likely to prevent a competitive lowering of supervisory standards.

Amihud and Mendelson address the question of how trading in Europe's securities markets should be integrated. They reject the notion of creating a centralized European stock exchange, proposing instead to create a central clearing system, in addition to establishing uniformity in communication and information but not in modes of operation. A unified market structure might then evolve in response to market forces. Relevant as their approach may be, the technical issues that they consider might well be overshadowed by more down-to-earth questions like in which city will the securities firms have their main offices, and who will regulate them. The question of how to regulate non-banking financial services like investment management, broking and dealing is addressed by Mayer and Neven. Using a model of a market for financial services in which there are firms of varying quality, they contrast capital requirements and penalties on misbehaviour as regulatory devices, and they compare the relative merits of statutory regulations and self-regulatory organizations.

After an article by Giovannini and Hines, in which they discuss the dual problem of tax-induced capital flight and the tendency towards competitive lowering of tax rates, that is evident particularly in the field of corporate taxation, the book turns to questions of monetary integration. Buiter and Kletzer take issue with the claim in the Delors report that in a monetary union binding rules on national budget deficits are required, which they view as representing 'the typical Pavlovian condition reflex of fiscally conservative central bankers when faced with any and all government deficits.' In their opinion, specifically ruling out monetary financing of budget deficits is unnecessary when the European central bank is independent of instructions by the political authorities, and placing upper limits on the size of national budget deficits is not a good way to coordinate budgetary policies. However, in practice statutory independence of the European central bank is unlikely to suffice in insulating it from political pressure. It is therefore desirable to supplement statutory independence with provisions that reduce the incentives for political authorities to exert such pressure. The rule on monetary financing should be seen in this perspective. The discussions on a rule for the size of national budget deficits have now taken the turn that such a rule should not be regarded as an absolute ceiling, but rather as a trigger mechanism for consultations. This would seem to meet the objection that strict upper limits on budget deficits are not a good coordination mechanism.

The papers by Woodford and Weil examine the theoretical underpinnings of the British proposal for competing currencies as an alternative to the route towards monetary union set out in the Delors report. Their research leads to the intuitively appealing conclusion that increased currency substitutability will increase the scope for speculative instability in exchange rates, and that there is no guarantee that the currency of the monetarily most virtuous country will emerge as the nominal anchor of a multicurrency region – indeed, it is more likely that Gresham's law will apply. In the final article, Dornbusch, with characteristic broad strokes, proposes that the core countries of the EMS immediately fix their currencies' Deutsche Mark parities permanently and irrevocably. The costs of maintaining the option of changing parities but not exercising it are high, so he argues, because this policy implies that interest rates contain a premium for depreciation risk. Fixing the exchange rate will eliminate this risk premium, making for substantial savings on government debt service. Although Dornbusch's proposal might appeal to those who get impatient with the debate on institutional issues that now characterizes official EMU discussions, it is not clear that countries should be willing to embark on the path towards monetary union without knowing what this union will look like. Indeed, for some countries the main attraction of monetary union seems to be that it will enable them to decide on monetary policy on an equal footing with Germany. This prospect is not held out in Dornbusch's proposal. Neither is his proposal likely to attract German support, because it offers no guarantees that the perennial German problem of imported inflation will be solved.

To sum up, this book contains very interesting articles, some of high academic achievement, others of more directly practical importance. Although one need not agree with all the positions taken by the various authors, the book offers stimulating reading for anyone interested in problems of European financial integration.

J.R. Pruntel

Wim Klever, *Zuivere economische wetenschap* (*Een ontwerp op basis van spinozistische beginselen*) (Pure Economic Theory (A Design on the Basis of Spinoza's Philosophy)), Boom, Meppel, Amsterdam, 1990. Pp. 145. Dfl. 32,50

Contrary to most philosophic work on economic science, this original book is not explicitly preoccupied with methodology, it does not accuse economists but rather tries to spell out some basic insights (retrieved from Spinoza's philosophy), on which a sound economic science should be based. The book is centered around quotations from Spinoza, the author comments on them and develops his ideas by jumping from one quotation to the other. It takes him to one central principle which should guide our construction of a political economy. Like Descartes, Spinoza was very much impressed by mathematics and physics, which, in the seventeenth century, started to develop as successful modern sciences. Spinoza used their methodology to construct an exact philosophy. From mathematics came the deductive method, from physics the overall importance of classic causality in the sense of colliding billiard balls. Both these ideas form the backbone of this book. According to Professor Klever economic science is presently in a mess, scientists are disillusioned about the reality value of their models. This must be blamed upon their inductive method. Starting from stylized facts, economists try to develop a theory which takes all these facts into account. Only, stylized facts are more stylized than fact, they are a construction of the perception, a perception which can be deceived constantly, and is never stable in this ever floating world. The universe is one big machine where things move and are being moved. A human being is just like all others, composed of thousands of subparts, which, when all moving more or less in the same way, guarantee that the person is looked upon as an individual entity, while in fact every act is nothing but the consequence of a causal interplay of all these different parts. This means that human beings cannot be looked upon as intentional, goal-directed people, apart from one central inclination common to all beings, *i.e.* survival. As a consequence, everything that promotes the 'self' will be liked and looked for, while everything that is not directly positive to the self will be hated, altruism is a *contradictio in terminis*. Because of this basic law, any community trying to organize its institutional structure should always link the interest of community with the interest of the individual. This must be our basic rule, if we do not succeed in linking both, the community will fall apart.

In a very rude way, this is the message Professor Klever sends to economists. Contrary to what the author might think, this message is well known. Combining common and private interests is in fact the nucleus of the whole stability question in economics. Stability was introduced in economic science by Edgeworth who, in a work accidentally or not entitled *Mathematical Physics*, developed the well known Edgeworth box. The lens of the Edgeworth box was later identified by cooperative game theory as the core. It is in this notion that common interest, self-interest and, one step further than Spinoza, also the interest of coalitions are being combined. In a game with many participants, the core shrinks and becomes the competitive equilibrium point, which is precisely the basic idea of neo-classical economics. It is ironic, but Professor Klever's attempt to develop a new system of pure economics seems to underpin the old neo-classical economics which he identified as being in a mess.

Luc van Liedekerke

Martin Shubik (ed.), *Risk, Organizations, and Society*, Kluwer Academic Publishers, Boston, Dordrecht, London, 1991. Pp. v + 239.

The book is based on a seminar organized to improve the understanding of societal behavior with respect to risk. Using economics, sociology, social psychology and decision theory, the participants discussed the nine papers they had prepared on the four topics selected: proliferation of nuclear weapons, terrorism, smoking and nuclear power. One of the ideas was that there are large and fundamental differences in the structure and perception of societal risk between these topics. Sample surveys confirm this idea, as Jan Stolwijk and Priscilla Canny demonstrate in chapter 2. Moreover, there are differences between people in the perception of risk, in confidence with respect to experts and institutions and in desire for regulation. Before Stolwijk and Canny present their results, Martin Shubik comments on the methodology of risk assessment. In chapter 1 he studies the interactions between scientists, politicians and people in their communication about and handling of risk matters.

Chapters 3 and 4 are devoted to the risks of the proliferation of nuclear weapons. Chauncey Starr and Chris Whipple, both with a 'hard science' background, first present a technology based on qualitative risk analysis which leads them to advocate verifiable arms control. Then Henry Rowen, Professor of Political Economy at Stanford University, discusses the economic and political aspects of nuclear developments, both military and civilian, using the framework of supply and demand. He sees alliances as efficient means to lower the demand for nuclear weapons by a large number of nations. The risks of terrorism are the subjects of chapters 5 and 6. In chapter 5 Brian Jenkins, former captain of the Green Berets, now working at the Rand Corporation, makes it clear that one hundred percent protection from terrorism is impossible. Questions like 'should security be based upon what terrorists are believed capable of doing, or upon what they have done in the past,' and 'how much security is enough' can hardly be answered scientifically. A much heard counter-question like 'how afraid are you' stresses the subjective and emotional nature of terrorists threats. In chapter 6 the former FBI agent Homer Boynton answers a number of questions concerning terrorism and airline security.

The subject of chapters 7 and 8 is cigarette smoking and its societal risk management. Ernst Wynder, president of the American Health Foundation and an activist against smoking, and M. Orlandi mention and classify the elements in this field of study. They identify human nature as the ultimate obstacle to preventive medicine, but other complications seem to be social class, education level, sex, race and the like. Thomas Schelling uses chapter 8 to demonstrate the passive attitude of government, the need for motivation and information, the working of 'hidden persuaders' via TV *e.g.*, *etc.*

The last two chapters deal with nuclear power. In chapter 9 Alvin Weinberg of the academic Institute for Energy Analysis (Oak Ridge, Tennessee) sketches the opposed views of the experts and the skeptics, and then discusses some approaches to reconcile these views. He mentions the 'inherently safe reactors,' the 'perfect' containers for waste disposal and a more adequate view on the relation between low radiation and cancer. The physics professor at MIT, Henry Kendall is not only an expert but also a critic – witness the title of his contribution: 'The failure of nuclear power.' Chapter 10 is the longest article in the book and it shows the technical ups and human incompetence downs around the use of nuclear power for generating electrical power. In the end he is pessimistic about the success of nuclear power, at least in the U.S.A.

Although there are many interesting things in this book, it is far from convincing in its multidisciplinary approach, considering the program set out in the Introduction, *i.e.* identification of important variables in the societal risk perception and the study of methods to perform this identification – so promised on p. 3 and in chapter 1. But in this reviewer's opinion that very study did not live up to its promise, and as a consequence the meaning and weight of the variables indicated in the chapters remain vague and uncertain. Look *e.g.* at the political structure in its various editions: (un)democratic, (de)centralized, (non)elitist, *etc.* Where does the reader get any *systematic* understanding of its working related to the problems at hand? This question comes up with respect to many other variables encountered, and the lack of answers reduces the scientific quality of the book. Another and final remark is about the number of misprints, which is too high for a book edited so beautifully!

G.F. Pikkemaat

Robert Klitgaard, *Tropical Gangsters*, Basic Books, Inc., New York, 1990. Pp. xiv + 281. $22.95

The economic literature has been flooded with articles and books about the economics of developing countries written in a theoretical and abstract manner. But here is a book that is different. In *Tropical Gangsters* Robert Klitgaard vividly writes about the development policy of Equatorial Guinea from a first-hand point of view. Between June 1986 and October 1988 he was the administrator-economist of an economic rehabilitation project in that country. The project was funded with 13 million U.S. dollars by the World Bank, which amounted in 1986 to about 11 per cent of GDP in current U.S. dollars. For both economists and lay-persons Mr Klitgaard provides much information about the difficulties in reviving an economy in sub-Saharan Africa. Although not always in a rigorous and comprehensive way, most of the major themes of development economics are covered: old ones such as growth *versus* equity, food *versus* cash crops, price *versus* non-price factors, and aid *versus* trade, and also new ones including participation, women in development, and human development.

Since the beginning of the 1970s, but especially in the 1980s, sub-Saharan Africa showed negative per capita income growth, large current account deficits, and high inflation rates. The causes of the economic crisis in sub-Saharan Africa, as is now agreed upon, lie in structural characteristics of the economy, inappropriate policies, and external shocks such as increasing interest rates, deteriorating terms-of-trade, and erratic and deficient rainfall. To be assured of the necessary financial resources, policy reform often took place under the conditions of World Bank and IMF loans. These required countries in sub-Saharan Africa to implement measures directed at more market activity and less government interference to attain domestic and external balance. The policies were aimed at short-term results which often did not materialize, partly because of the fact that the external shocks did not appear to be temporary. In the second half of the 1980s, UNICEF, among other organizations, drew attention to the social consequences and the lack of long-term focus of the structural adjustment programs recommended by the World Bank. By now, consensus among experts is growing about the appropriate policy mix, both in Africa and the donor community.

Equatorial Guinea is a typical case. In 1985 the country implemented a policy along World Bank/IMF lines. It devalued, joined the currency union in central Africa supported by France, removed price controls, changed the tariff system, and began privatizing state enterprises. But the desired effects did not come about; in 1986 the World Bank provided aid aimed at the rehabilitation of the economy.

Tropical Gangsters describes how structures, policies, and external shocks impeded the development process. Roads were in deplorable state, especially on the continent, and were, for example, an obstacle to extension services and (food) exports to neighboring countries. Communication systems were nonexistent (telex) or in poor condition (telephone). The banking system was in complete disarray. Banks were virtually insolvent or bankrupt, a perilous lack of liquidity existed, and credit markets malfunctioned with regard to allocation and repayment. Property rights were inexplicit and unstable, as it was often unclear who the owner of a piece of property was. The public sector was performing badly. There was no registration of water and electricity use by consumers and only 30% of the billed electricity was paid for, mainly by people who did not work for the government. Government expenses were partly unproductive and out-of-budget. The productivity of aid was also disappointing. Aid efforts lacked coordination and technical assistants did little to train the local inhabitants. The educational and health care systems were in a deplorable state. In these fields Mr Klitgaard was ahead of official World Bank policies and outlined what now is part of the above-mentioned consensus. 'I thought the proposed rehabilitation project should include money for pharmaceuticals and medical supplies. At first they [World Bank officials] had rejected the idea: the project's goal was to invigorate the economy, not to provide social services. They kept using the World Bank's expression "the productive sectors." I kept talking about the importance of human capital. What "sector" was more productive than people? They (...) eventually agreed.' (p. 35) Data were poor or not available (not even GDP in constant prices, for example). Corruption was a problem and frustrated equitable, efficient, and non-arbitrary operation of the economy. Related to this is the question Mr Klitgaard asked himself: Who are the real tropical gangsters? The government, domestic or foreign capitalists, donors, or foreign experts? Favoritism was also widespread (the government was dominated by one clan and one ethinicity). The country was politically unstable. There were two coup attempts during the two and a half years covered, which lead to a high turnover of government officials. The declining volume and international price of cocoa exports, coupled with the debt service, made foreign exchange scarce (ministers argued over the allocation of diesel fuel). One reason why cocoa was not competitive in Equatorial Guinea, except for some high quality cocoa, was the declining international price compared to the production costs. Therefore this sector should not be expanded, as is argued in the book, contrary to what the World Bank tried to accomplish with another project.

What Mr Klitgaard did, or tried to do, might be called, 'Let them invent the wheel to get the economy rolling again, while I supply the tools to make that wheel.' In seminars, workshops, and with the coordinating committee of his project, Mr Klitgaard provided the framework with which cabinet members, civil servants, and local business people could analyze their own economy and formulate the medium-term development strategy of the country. They came up with sometimes obvious conclusions, but the important point is that *they* came up with those conclusions instead of the World Bank and the IMF. They became enthusiastic about their ideas and were committed to their implementation. This strategy was used as a basis not only for the determination of imports for the project, but also for the agreement with the IMF which was reached just before Mr Klitgaard left the country. This agreement raised hopes for a structural adjustment loan from the World Bank (although cross-conditionality is officially not allowed) and increased donor aid and foreign investment, which in practice depends on an agreement with the Bretton Woods institutions. (P.S. The IMF refused to disburse the second instalment in December 1989 because of unsatisfactory progress. As of November 1990, 9.2 of the total of 12.9 million SDR were still not drawn.)

The approach was not altogether successful. One workshop petered out for lack of interest. Another, for ministers and presidential advisers, did not get started because of rivalry between the ministers and a suspicion of the intentions of Mr Klitgaard. But the coordinating committee of his project, made up of the ministers of Finance, Planning, and Industry and Commerce, and Mr Klitgaard, was considerably more successful. Roads were repaired and maintained. Availability of water supply increased. Payments for electricity went up. Extension services improved. More garbage was collected.

To date, the budget deficit remains high, the pressures from donors for political reform rise, the cocoa price is still decreasing, and the banking crisis continues. One of the few bright spots for Equatorial Guinea is the start of gas production in 1991 from an off-shore field.

Henk-Jan Brinkman