

Development Strategy and Management of the Market Economy: Volume I. By Edmond Malinvaud and others. *Oxford: Clarendon Press, 1997. Pp.xiii + 302. £25. ISBN 0 19 8292120*

Development Strategy and Management of the Market Economy: Volume II. Edited by István P. Székely and Richard Sabot. *Oxford: Clarendon Press, 1997. Pp.x + 356. £35 and £25. ISBN 0 19 8292120 and 8292503*

These two volumes constitute a timely survey of the new consensus in development economic analysis and policy. The articles in them are written by economists engaged, by the Department for Economic and Social Information and Policy Analysis of the United Nations, to examine the role of government in the light of the resurgence of market economics in the 1980s and of the associated strategic objective of reducing the degree of state involvement in economic activities. They have written a series of articles, which taken together, exemplify the synthesis which has taken place in economics since the neo-classical counter-revolution which began in the mid-1970s and turned the post-Second World War consensus upside down.

The first volume comprises essays on various aspects of development strategy. Sen argues the case for a development strategy, Stiglitz proposes a supporting role for Government in making markets work, Malinvaud and Nabli discuss the future of planning institutions in market economies, Stern emphasises the importance of macroeconomic stability in the development process, Suzumura discusses the role of industrial policy, Milleron examines the effects of external shocks on development strategy, and Stern and Stiglitz summarise the framework for development strategy in the market economy. The second volume comprises companion papers written by authorities in their respective fields which include discussions on promoting an effective market economy, on the important role of education, on the role of effective institutions and good governance, on planning, and on financial markets. As a detailed survey of the development analysis and policy consensus, written in a relatively non-technical way by experts in their respective fields, these volumes could not be bettered and will be an extremely useful reference for academics and students working in the field.

The discussion throughout takes place within a state-market paradigm. The premise underlying the contributions is that the market has primacy. Markets dominated by private ownership and entrepreneurship allocate resources in the most efficient way. The state's role is to assist these markets to work, to intervene only when there is genuine market failure, and to create overall macroeconomic stability. Yet these collections provide little sense of history or context. Nor do they give critical examination to the concept of the 'market which remains a theoretical construct implying competition and efficient allocation of resources. Yet what we observe is that markets are highly structured, never perfect but often dominated by few players on both demand and supply sides. Prices reflect market power, which in turn reflects technological dominance. Governments more often appear to be the prisoners of market forces than their controllers. Further, as the contributors to these collections often recognise, markets fail, and the State has a wider role than simply providing a legal framework protecting private property rights and enforcing contracts, and maintaining national defence and security. The post-war 'Keynesian' consensus addressed the issue of market failure by advocating state planning of economic activity. Many developing countries, influenced by the apparent early success of Soviet planning, adopted some form of state planning on gaining independence. The

1980s saw a breakdown of this 'Keynesian' consensus and a resurgence of 'free-market' economics. This was given a major boost with the collapse of the Soviet system and the adoption by the some of the 'transitional' economies of market-based, 'shock-therapy' policies.

The state's role in the new classical resurgence was to 'de-regulate' markets and to organise its own downsizing by selling off as much of its productive assets as it could. Many activities which, under the old consensus, were considered to function best under state ownership were now considered to function more efficiently if operated by the private sector. State monopolies were transformed into private, but regulated, monopolies, with markets open to new entrants. The markets in which the old natural state-owned monopolies were dominant were re-structured in order to present the semblance of competition.

By the mid-1990s, maybe earlier, it was generally realised that these policies did not always work, especially in developing countries. In particular it was realised that institutions had a major influence on the behaviour of markets. 'Good governance' was seen as a central component of a successful growth path. More profound analysis of the lessons of the East Asian miracle than the early and simplistic free market explanation for their successes, resulted in a recognition of the role of a strong state, and of the importance of education, something only the state could supply on a universal basis.

So there was a more interventionist role for the state after all and it does appear to be more than simply enabling markets to work. However, these volumes seem to advocate the less interventionist approach in which markets have primacy, rather than the approach which structures and regulates markets to serve public policy. Yet ironically it is the latter kind of interventionism which we saw in Thatcher's Britain in which rolling back the state reduced its asset base through privatisation but increased its political power through regulation.

Much is made in these collections about the importance of capital markets and macroeconomic stability. Yet the 1990s has seen the wayward behaviour of capital markets throughout the world, the baling out of large-scale financial failures because of fears of their effects on the world financial system as a whole, and a serious slump in the East Asian miracle countries which threatens a world recession not seen since the 1930s. In the end the advocacy of markets has little meaning unless economists are prepared to address the fundamentally flawed character of all unfettered markets and the nature of power relations inside them.

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Poverty: A Persistent Global Reality. Edited by John Dixon and David Macarow. *London: Routledge* (Series Social Policy/Development), 1998. Pp.xvi + 287. ISBN 0 415 14681 X and 14682 8

Comparative studies on poverty are very welcome. Knowledge of poverty has increased significantly, and much can be gained by comparing studies across countries. Studies that compare poverty in industrialised and 'developing' countries are particularly welcome: the world is rapidly becoming more closely integrated, old divisions between developing and developed countries are disappearing, and – I believe – the development specialists' concern with poverty elsewhere ought to be