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BOOK REVIEWS

Finance, Growth and Stability: Financing Economic Development in Thailand, 1960-86. By KAREL JANSEN. (Avebury Press, Aldershot, 1990.) Pp. 256 + xviii, ISBN 0 566 07125 8.

This work, which derives from a 1987 doctoral thesis, examines the causes and effects of financial development in Thailand over the period 1960-1986. Taking a structuralist perspective, Jansen focuses on the relationship between financial development and structural change in the Thai economy. He argues for a sectorially disaggregated analysis of the causes and effects of financial development. His analysis differentiates the economic behaviour of the unincorporated household sector of small, family-based production units from that of corporate sector of large firms and that of the government and, thus, focuses on the savings and investment behaviour of three spheres, households and household firms, corporations and the government. He claims that the unincorporated household sector has played a significant role in Thailand's economic development via an intersectoral flow of funds from this sectoı to the corporate sector via the financial institutions.

Jansen's disaggregation of the private side of the productive sector is particularly significant. He claims that the factors which influence the savings and investment behaviour of households and household firms are different from those which influence the corporate sector. While the latter, which are involved in agriculture, trade and services, have only limited control over price setting, the corporate sector have some degree of control over the market and price setting. Jansen argues that these differences in production conditions influence both their savings and investment behaviour, and their interaction with financial institutions.

Chapter 1 constitutes a brief review of the literature on finance and development. Jansen argues for a structuralist approach which integrates factors such as growth, resource mobilisation and intersectoral transfers of funds. Chapter 2 outlines the major trends in Thailand's economic development during the past 25 years. He claims that during this period, the resources for the growth of the financial system derived primarily from domestic resources, part of which were channelled through the financial institutions and made available to corporations and the government. Chapter 3 constitutes an analysis of savings behaviour. Jansen points out that existing theories of savings behaviour treat the household as a consumption unit and argues that in developing countries such as Thailand most households are simultaneously production units. Thus their income and savings vary according to the market prices of their product. His model for both household and the corporate sector savings explains the savings of these two types of firms by the production conditions they face. He shows that household savings vary over time according to output prices and the cost of production. As this sector is predominantly agricultural, output prices are determined by export prices set by the world market. In contrast, corporate savings are more stable over time as this sector has more control over output prices. Chapter 4 uses Flow-of-Funds accounts to examine the allocation of resources in both the household and corporate sectors, and to trace the flow of funds between sectors. Jansen argues that the household sector has a savings surplus which is channelled through financial institutions to the corporate and government sectors. Chapter 5 discusses the effect of short term disturbances on savings and investment behaviour of the three types of economic institutions. Jansen argues that household savings fluctuate as they are sensitive to external shocks such as a change in export prices. In contrast, corporate and government savings are more stable over time. In respect to investment, he claims that household and government investments are relatively stable while corporate investments fluctuate due to domestic factors. Chapter 6 concludes Jansen's analysis of Thailand's economic development by discussing its relevance for the study of economic development in other developing countries. Significantly, Jansen points out that the three characteristics of the Thai economy which he identifies as being largely responsible for Thailand's economic success are unique to Thailand. As Thailand's land surplus economy, its export of basic food crops and the role of its agricultural sector as a major employer of the population are characteristics not shared by other developing countries, and as other developing countries exhibit differences in economic structure and policy, many of the findings of this study are applicable only to Thailand. However, Jansen argues that his analysis of household savings in terms of production conditions and his analysis of the production conditions of the household firm are applicable to the analysis of economic development in other developing countries.

The strength of Jansen's analysis of Thailand's economic development lies in his disaggregated analysis of the economy, in his treatment of the Thai household as both a productive and consumptive unit, and in his analysis of the significance of intersectoral flows of funds. Unfortunately he engages in little discussion regarding the role of government policy, and his analysis of the role of family networks in the control of the banking and corporate sector is rather general.

However this work conclusively demonstrates the role played by the unincorporated sector of the economy (about three-quarters of Thai households) in the economic development of Thailand over the past 25 years. And, while the conditions which have led to Thailand's economic development during this period may be specific to Thailand, Jansen's work has wider applications. His demonstration of the role of the unincorporated sector and of the significance of intersectoral transfers of funds in economic development has relevance for the analysis of economic development in other developing countries. Similarly, his analysis of household savings and of the production conditions of household firms in Thailand is relevant for other developing countries. Thus, while this book is of most interest to the Thailand specialist for whom it constitutes a useful analysis of Thailand's economic growth over the past 25 years, it also has a much wide relevance as a contribution to the study of the economic development of the other lesser developed countries.

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Agricultural Trade Liberalisation: Implications for Developing Countries. By IAN GOLDIN and ODIN KNUDSEN (eds). (Organisation for Economic Cooperation and Development and the World Bank, Paris and Washington D.C., 1990.) Pp. 488, ISBN 0-8213-1527-7.

In a proximate sense this book is the product of a symposium convened by the OECD Development Centre and the World Bank in October 1989 to discuss the effects of the possible liberalisation of agricultural trade on the group of developing countries. In the ultimate sense, however, it is the product of the conjunction of two circumstances, namely, the inclusion of agricultural trade liberalisation in the agenda of GATT negotiations for the first time and the development of multi-commodity models which are capable of analysing the interactions between commodity markets. This book represents the state of the arts and it may subsequently prove to be a milestone in the analysis of agricultural markets.

Because of deficiencies in the original design of GATT (which provided for export subsidies under Article XVI and special provisions for agricultural quotas under Article XI) and the wholesale subsequent abuse of these provisions following the U.S. waiver of 1955 and the development of the Common Agricultural Policy of the EC after 1958, agricultural trade has become the most restricted of all commodity groups. The current Uruguay Round is attempting to reduce border trade restrictions on agricultural commodities for the first time. Hitherto, the focus in Australia and more broadly in the OECD countries has been on the effects of agricultural trade liberalisation on these countries as exporters and on the negotiation package. As many developing countries are net importers of agricultural commodities, especially of food grains which are a large part of the total budget of households in these countries, there has been a widespread concern that agricultural trade liberalisation would increase the world market price of these commodities and thereby harm net importing countries. For this reason many of the developing countries have not supported global negotiation of reductions in agricultural trade barriers.

All of the models used in this book predict an increase in world prices for meat, dairy products, and sugar, and all but one (the OECD's WALRAS model) predict an increase in the price of the important food grain group. For feed grains, the results are ambiguous, reflecting the derived demand nature of these products for which the demand is expected to fall as livestock production falls in the OECD countries. The magnitude of the expected increase in world market prices for food varies from around 15 to 30 per cent. This verifies the main fears of food importing countries which have benefited from the sale of subsidised and dumped temperate foodstuffs.

The models also show, however, that this price effect will be offset by a number of other factors. If the trade liberalisation is extended to the markets of the developing countries themselves, the extent of the price increases will be much less and these countries would gain greatly from improvements in market efficiency. Moreover, if the increases in world food prices is transmitted to these developing country markets, the vast majority of the world's poor households who are farm families in these countries would gain from the liberalisation of world agricultural trade. Trade liberalisation would reduce the variation of prices in international food markets by as much as one third on average and perhaps one half for wheat, the most important food grain. Several studies reveal that food trade liberalisation would increase the net foreign exchange earnings of developing countries and therefore alleviate their debt servicing and foreign exchange market problems. These high prices might induce more rapid technological change in the agricultural sector of developing countries and could induce some of them to switch from being net importers of these products to being net exporters. Thus, in a variety of ways, sophisticated multi-market modelling reveals that the naive prediction of harm because of rising world prices is not an accurate predictor of the net effects on the whole economies of this group of countries.

Some of the results of this book should be taken with a grain of salt because the methods used are still crude in several ways. In particular, only one of the dozen models used has estimated econometrically from time series data the parameters of the model, namely, the Basic Linked System of IIASA. All of the others either borrow their parameter estimates from some other groups which constructed them using different data or simply make them up. The reader has little idea as to how accurately the models which are simulated reflect historical time series. A second major deficiency is that almost all of these studies follow the lead of the OECD in using tariff equivalents for the distortions in agricultural commodity markets, usually expressed in terms of producer and consumer subsidy equivalents. Now these agricultural commodity markets are among the most distorted in world trade not only in terms of the level of distortions but particularly in having a complex array of instruments which apply to each market. In an initial survey paper Hertel warns of the danger of using tariff equivalents.

This is nicely illustrated by Whalley and Whigle in their paper. They construct the effects of liberalisation when the complex of instruments which apply in the U.S. wheat programme are modelled as a single tariff equivalent compared to a more detailed model which specifies the joint effects of deficiency payments, loans, and land set asides. Their results show dramatically that the predictions can differ in sign. When modelled as *ad valorem* subsidies, eliminating programme support causes world price to rise and U.S. output to fall but when the policies are modelled explicitly world price falls and U.S. output rises. This is a salutary lesson to the general equilibrium beginner.

All of the models included in this book ignore price instability as they use comparative static analysis except for the paper by the two Australians, Anderson and Tyers. (Their paper makes an outstanding contribution in this and other respects such as the analysis of the effects of price changes on technology development.) As a final caveat, one should remember that the proposals for agricultural trade liberalisation are only a part of a package of negotiations. Just as extending the shock of trade liberalisation from developed countries to developed plus developing countries can alter the predictions of the effects on individual countries, so too the extension of trade liberalisation from agricultural commodities to all commodities may radically change the predictions for individual countries.

Viewed as a set of 'state of the art' modelling exercises, this book is important and revealing. It marks the arrival of general equilibrium analysis as a tool of analysis for agricultural economists. Some of the models are partial equilibrium and some are general equilibrium but all use multi-commodity markets which interact with each other rather than the once conventional single-market analyses. They show that there are decided gains in our understanding of individual markets and their effects on the economy if we analyse simultaneously markets which are linked on the demand and/or supply side, and also in embedding these markets in a large set of markets in which there is interaction between agricultural and non-agricultural commodity markets because of factor market constraints, revenue effects, balance of payments constraints, and other factors which operate at the economy level. Some of the models are multi-country as well as multi-market general equilibrium models; for example the WALRAS model applies to all OECD countries.

This gain in commodity and country coverage has, however, only been achieved at a considerable cost. The details of the models of individual markets has often had to be greatly simplified. There is a trade-off between the advantages of general equilibrium and partial general equilibrium modelling as a question of the optimisation of this trade off. My view is rather different. I firmly believe that the general equilibrium modelling which explicitly connects all markets is essential to capture the full picture. With current technologies of model building and simulating these models on portable micro computers, it is not necessary to sacrifice the details when one moves from partial equilibrium to general equilibrium analysis. Rather than start with general equilibrium models of the standard type, agricultural economists should consider modelling agricultural commodity markets in the traditional way with full detail and then embedding these specifications of markets into an appropriate general equilibrium model. Of course this form of modelling would require teams of researchers and more resources which are the real constraints.

I heartily applaud the OECD and World Bank for their important initiative in bringing together the results of recently developed multi-commodity models and commend their work to all agricultural economists. In the context of global trade and change in trade barriers, agricultural economists can ignore general equilibrium only at their peril. This book is an excellent case study.

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Australian Agricultural Research: Some Policy Issues. By ALAN LLOYD, MICHAEL HARRIS, DEREK TRIBE (1990). (The Crawford Fund for International Agricultural Research, Parkville.) Pp. 42, ISBN 0-7316-8804.

This report represents an abridged version of a submission by the Victorian Branch of the Australian Institute of Agricultural Science to a review of research in the Victorian Department of Agriculture and Rural Affairs, together with material from a study on agricultural issues commissioned by the Australian Special Rural Research Councils. The document focuses on some important policy issues that underlie the support for agricultural research.

The authors should be congratulated for making the effort to select and edit these components of the submissions, as usually, once such reports are submitted they receive limited circulation and end up in the archives.

Selecting the material and grouping the relevant discussions under a series of policy issues provides a useful analysis of the need for agricultural research. This includes questions of the value of research, the need for more or less, the question of priorities and finally who benefits, who should pay and how can we improve the efficiency and effectiveness of our research.

Because of the way in which the document has been put together, often as a series of self contained assertions, it is not easy to read. To their credit, the authors have done their best to tie the arguments together and for those accustomed to the 'dot point' style of presentation, it does convey a lot of information in an economical manner.

The argument for continuing to invest in agricultural research, although not new, is well developed, as is the need for governments to continue to provide the majority of the research funding which cannot be met by the private sector. A strong case is made for increasing our research investment in sustainable production systems and in other new research approaches and technology that will ensure that the record of high returns from research investment in Australia will be maintained.

I found the section dealing with the analysis of claims of unfilled potential in 'value added' processing of rural products valuable and well balanced. The authors might have been a bit more optimistic about certain value added products, including processed and preserved foodstuffs for the Asian markets. However, the principle of comparative advantage (or disadvantage) as they point out, will remain the important determining factor.

In discussing how much Australia should invest in rural research, a strong case is made, based on ex post analyses of returns to research investment, for retaining current levels (in reals terms) and increasing these over time. These retrospective analyses are valuable, but say little about the future. Many factors, internal and external to our research environment, can influence this. In this respect, possibly more could have been said about their training, research environment and culture and their opportunities for travel and study to maintain the quality of Australia's research effort. This, more than any other factor, will influence the returns to investment in Australia's future research activities.

All those familiar with research will appreciate the arguments made for maintaining adequate core funding. How often is the case made and how regularly is it forgotten in the rush to fund short term tactical research. In the same analysis of 'who pays' the authors also stress the need for funding to include more realistic overheads, especially in the case of funds from rural research corporations and other government and private funding agencies. With finite resources for research, this may mean fewer well-supported research projects, but in the long run this may well represent a better strategy than the current practice.

In the final section of the publication there is an attempt to bring the various threads together to develop strategies for more effective research coordination within the between the States and the Commonwealth. The idea of developing Research Advisory Councils (RAC), presumably in each State, to advise Ministers on research goals, strategies and priorities and the resources required to support the resulting research programs is suggested. Provided there is adequate representation and consultation such committees may work, but it is also probably true that the best ideas for research tend to come from the 'bench' and not from expert committees. The report comments on the consolidation of research to achieve greater economies of scale and a critical mass of scientists and research resources. Little is said about the new Commonwealth initiative for collaborative research centres (CRCs) which provides a new way to think about collaboration between public and private (industry) research institutions. The experiment has just begun but it may well signal a new approach to research coordination and provide a better environment for relevant research of high quality. It may also be a pointer to the direction in which agricultural research is moving in Australia.

In summary, the report provides a useful analysis and a balanced case in favour of a continued investment in agricultural research by governments and the private sector in Australia.

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Agricultural Price Policy: a Practitioners Guide to Partial Equilibrium Analysis. BY ISABELLE TSAKOK. (Cornell University Press, Ithaca and London, 1990). ISBN 0-8014-9596-2 (pbk.:alk paper).

Tsakok has set herself the task of both explaining and justifying the important elements of price policy as it applies to developing countries. Her style and philosophy are orientated towards the practical application of theory in this area and she refers to her book in a number of places as a 'manual for practitioners'. Her success in this endeavour is mixed; at one level the book is a very practical guide to applied price theory, while at another level she skims over important problems using superficial arguments which, at times, cause some confusion.

The book divides into three principal areas. Chapters 1 and 2 provide the policy framework, chapters 3 and 4 provide practical procedures for calculating coefficients of protection and comparative advantage, and chapters 5 and 6 discuss the methodology and theoretical basis of price analysis.

The first section on the policy framework is disappointing. With little referencing and fairly weak arguments, the policy problem is rapidly defined as one of imposing parity pricing on developing countries. The description of the analytical procedure that would be used to obtain an overview of the developing country is extremely general and is accompanied by tedious detail on sources of data, relevant policy considerations and some very elementary research methodology. For example, on page 10 we are informed that 'analysis is more than merely collecting data' and on page 11 that 'analysts need to go beyond official statements'.

Chapter 2 introduces the concepts of shadow and border prices and parity benchmarks and their roles in efficiency analysis and provides some useful and clear definitions. However, few, if any, of the problems associated with these concepts are explored in satisfactory details and the shortcomings that are acknowledged tend to be swept aside. Unfortunately, this chapter also has some important errors. For example, the difference between pegged and floating exchange rates is clearly not understood by the author. Another pervasive error in the book concerns the attempt by the author to differentiate welfare from efficiency effects and to define efficiency. For example p. 128: 'This argument is made strictly in efficiency terms, and other considerations such as welfare, risk, or security are not included'.

By the end of Chapter 2, one is left with the impression that the book is actually describing a highly simplistic computer game in which relevant surfaces are guaranteed to be convex and continuous, competition and property rights are assured and where markets are neither missing nor incomplete. The game seems to involve pressing appropriate 'policy buttons' to maximise welfare, defined as a static surplus measure. The theory that has been developed by economists to deal with the complexities of the real world in this context is not referred to.

Chapters 3 and 4 of the book are much better than the preceding chapters and may be valuable to economists interested in applying price theory in developing countries. The definitions of various coefficients of protection and comparative advantage are precise and usefully spelt out and practical problems in using these measures are discussed. Realistic examples of some of the measures are provided and explained in terms of their accountancy detail. Chapter 4 has a good discussion of the concepts of comparative and absolute advantage and provides some techniques for obtaining shadow factor prices.

The last two chapters of the book discuss market analysis and some of the approaches to estimating quantitative responses to changes in prices. The approaches are based on the usual assumptions of atomistic competition and well-behaved relationships. A reasonable discussion of alternative approaches to analysis of markets is provided along with some warnings about data quality. This last section of the book also contains some elementary trade theory that is used to justify the removal of tariffs and to calculate the associated financial gains. The discussion may be useful to individuals with limited economics backgrounds.

The strength of this book lies in its detailed treatment of measures of shadow prices, protection and comparative advantage. Its weakness lies in the superficiality of its treatment of key concepts, lack of referencing and in its avoidance of discussion and controversy.

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Agricultural Policies Markets and Trade: Monitoring and Outlook 1990. (Organisation for Economic Co-operation and Development, Paris 1990.) Pp. 298, ISBN 92 64 13381 X.

The release of the 1990 Report on Monitoring and Outlook of Agricultural Policies, Markets and Trade by the Organisation for Economic Co-operation and Development (OECD) coincides with a period of relative economic prosperity for the OECD member countries. The Monitoring Report analyses recent developments on a country-by-country basis up until 1990 in the light of principles for agricultural policy reform endorsed by member countries. The Report also gives levels of assistance, measured in Producer Subsidy Equivalents (PSEs), by countries and commodities for the years 1986-89.

Notwithstanding current economic buoyancy, there are several causes for concern noted in the Report which place the future economic prosperity of the OECD member countries in doubt. Firstly, there are signs of a moderation in economic growth, most notably in industrialised countries. Secondly, there is an apparent loss of momentum among OECD member countries towards trade liberalisation. Moderating growth in the OECD area and increasing growth among non-member countries suggests that the non-member countries will be of decisive importance in maintaining demand for OECD production. However, the potential gains from trade are jeopardised by protection practiced both at home and abroad. Taken generally, the authors argue it is therefore in the interest of OECD countries to proceed with trade liberalisation in order to maintain economic growth. This is particularly so, the authors argue, if the process of policy reform provides guidance for similar reform in developing and Eastern European countries.

Not all of the economic uncertainties which exist need to be interpreted as negatives. In some cases, the consequences for trade and agricultural markets of events defy prediction. The outcomes of the economic reforms taking place in the USSR and Eastern Europe fall into the category of profound uncertainty. What is ironic however, is that social, political, and economic reforms taking place in Eastern bloc countries are, in some sense, stealing the march on policy reforms in Western economies. More on this later.

The Monitoring Report holds a candle to the principles for agricultural policy reform endorsed by successive Ministerial Councils of the member countries. To do so the Report relies upon the use of PSEs to compare relative rates of government assistance and to identify trends in trade policy. Although an incomplete measure of the levels of assistance, the PSE, and its consumer counterpart, the Consumer Subsidy Equivalent (CSE), provide valuable cross-country comparisons of protectionist policies (Ballenger 1988). A quick glance at

[1] Rates of assistance measured as net percentage PSEs are calculated as a percentage of total production, valued at internal prices.

the data in the Report reveals New Zealand and Australia offered only light rates of assistance in 1989, with net percentage PSEs of 5 and 10 percent, respectively.[1] Although relatively low, with the OECD net percentage PSE in 1989 at 39 percent, these aggregate measures render the high rates of assistance to some, albeit relatively small industries, invisible. Neither Australia nor New Zealand can therefore afford to become complacent on these aggregate figures alone. More obvious transgressors are Finland, Japan, Norway and Switzerland, with net percentage PSEs all above 70 percent.

Data in the OECD Report indicate that for the second year in succession the aggregate levels of assistance to agriculture have declined. Yet this conclusion is found to be largely illusory, with higher world prices affecting the calculation of PSEs, but with trade policies generally unchanged. This conjuring trick, which exploits a weakness in the PSE measure, threatens trade liberalisation by allowing policy developments which confirm protection to take place under the veil of declining rates of assistance. In this regard, particular angst is expressed in the Report at the emergence of supply control measures, which curb output and hence budget expenditures under commodity programs, but which tend to institutionalise protection.

On regional matters the OECD Report ponders the consequences of the various regional trade agreements. Issues of trade creation and trade diversion aside, the authors of the Report are concerned that this regional focus may endanger prospects for global reforms.

One question which the Report fails to satisfactorily answer, is why is it that the developing countries appear to be embracing microeconomic and trade reform, whereas the wealthier industrialised countries advocate, but have failed in the main to implement reforms? Policy reform is, for example, not taking place with any haste in the United States of America. In trade policy, as in other arenas, the rhetoric of the Reagan era has seldom been matched by achievement. Although it is too early to judge whether Bush rhetoric is matched by performance, we already know that reading the President's lips has not prevented the introduction of new taxes. Protectionism is also flourishing in the EC, although often masquerading in the form of quarantine restrictions or bans on residues in food. Instead, it is some of the poorer and heavily indebted developing countries outside the OECD which are pressing for trade liberalisation and economic reform. Perhaps they simply cannot afford to maintain protectionist policies.

As a chronicle of the progress agricultural trade liberalisation the OECD Report scores highly. However, the Report suffers in a few key areas. Firstly, the potential gains from policy reform are largely taken as an article of faith. Only limited attempts to quantify the magnitude of the potential gains from trade liberalisation are undertaken via a General Equilibrium (GE) model. With the likelihood of opposition from interest groups to policy reform, the absence of more details evidence of the wider social gains from reform may weaken governments' commitment to trade liberalisation and policy reform. A second and related point is the failure to identify the distributive effects of policy interventions. In many cases, policy reform proceeds, not on the estimates of the 'triangles', but on an understanding of who receives the 'rectangles'. A third point about which this reviewer has strong misgivings is the argument advanced in the Report that international co-operation and the synchronisation of economic reform is 'clearly vital' (p. 32). Not only have the authors failed to take advantage of examples of unilateral reforms undertaken, for example by New Zealand, but the notion that policy reform must proceed multilaterally seems unnecessarily restrictive, if not a recipe for trade policy torpor.

But for the above criticisms, the poor quality of the paper, and some quibbles with the layout of tables and figures, the Monitoring Report adequately meets its objectives. It serves as a useful pin-prick to the consciences of trade Ministers who embraced the concept of market reform, but who have been less forthcoming in practice. Evidence of their foot dragging is documented herein.

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Reference

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