

John Cody, Helen Hughes and David Wall (eds.). *Policies for Industrial Progress in Developing Countries* — A Study jointly Sponsored by UNIDO and the World Bank. New York: Oxford University Press (for the World Bank). 1980. Paper Back Edition. ix + 316 pp.

The book under review is a compendium of articles by eminent economists including W. M. Corden, Amartya Sen, Ronald McKinnon, Deepak Lal and others. These economists who have had much experience with policy-making in developing countries evaluate the different policies undertaken by governments to facilitate industrial progress in the less developed countries. Of particular importance among these policies are those that deal with the balance of payments, exchange control, licensing, tariffs, quotas, etc. As noted by the editors the manufacturing sector has been largely responsible for industrial development; as such the subject matter of all the articles is related to this sector only.

The first article by Helen Hughes is a brief historical survey of industrialization with the initial emphasis on growth "at all costs". However, this policy objective soon came to be criticized and the emphasis shifted to growth with equity, both objectives being given their due share of importance. The latter half of the article discusses the different levels of industrialization attained by the developing countries and cites possible reasons for the unevenness in their development.

The second article on Trade Policies by W. M. Corden lists various measures, for example, devaluation, tariffs and quotas, to maintain the balance-of-payments equilibrium. The relative merits of these policy instruments are also discussed. The emphasis is on measures that make for a more efficient functioning of the industrial economy, namely, that the government follow consistent policies which consequently affect the manufacturing sector which, in turn, encourages further industrialization.

In the third chapter on Financial Policies, Ronald McKinnon discusses the role of financial intermediaries in promoting economic development. In particular, the role of the banking system is discussed in providing the necessary financial capital for development. Singapore and South Korea are successful examples of countries that have implemented financial policies which have encouraged and accelerated economic growth. Consequently incomes have been raised which in turn have generated further savings and the cycle is repeated. However, the situation differs in some Asian and Latin American countries which have pursued policies encouraging financial repression, that is, by limiting interest rates payable to depositors to pre-determined levels, by limiting reserve requirements and by allowing preferential interest rates. Such policies have resulted in a misallocation of resources which have affected savings rates which in turn have affected growth rates and the process of industrialization.

The article on Labour and Technology by Amartya Sen discusses in detail the issues of technical efficiency, technological choice education and industrial employment and labour policies in manufacturing industries. The author integrates these issues and presents a comprehensive portrayal of their interaction. Labour can be treated both as a productive input and as a consumption unit, and the author is well aware of the fact that labour planning is a very difficult proposition to tackle because, as he states "labour is endowed with a mind and volition, and whether or not free will is a contradiction in some remote philosophical sense, the will does seem to be free enough to keep the planner guessing". The subject of technical efficiency is elaborated first and followed by an extensive discussion of the choice of technology. The issues of technological dependence and the related problem of brain drain are also raised and dealt with. Finally, the author discusses the policy adopted for labour in manufacturing industry. It is important that for labour to function efficiently in a modern factory, it has to be well-disciplined. The prerequisites of this discipline are humane working and social conditions in the form of regulated working hours, proper housing and medical facilities and other benefits that would improve the productivity and efficiency of labour.

David Lim's chapter on Taxation Policies describes and discusses the various types of taxes, direct and indirect, that can be imposed to facilitate and encourage the development process. The author also discusses the structural effect of these taxes: whether it encourages greater competition in the manufacturing sector or whether it contributes to an intensification of the existing distortions in this sector. The role of tax policy in providing incentives for industrialization is also discussed.

In his article on Direct Controls in the Private Sector, Stephen Guisinger examines the aims and objectives of the system of licensing, a form of discretionary control, in promoting economic development. Five main objectives are discerned in the introduction of direct controls. These are: first, to give preference to certain industries, second, to prevent the growth of monopolistic power within the economy, third, to balanced regional development, fourth to control the activities of the transnational corporations and, finally, in limiting the scale of operations of firms that may prove a threat to an indigenous cottage industry such as cotton weaving and leather products manufacture from modern well established units.

The second part of the article is an attempt to analyse the role of licensing as practised by the developing countries. From the evidence that the author has at his disposal, it is clear to him that the licensing system delays the implementation of investment decisions which necessarily result in increased social costs to the economy in the long run. It also gives rise to uncertainty when the licensing authorities do not grant a comprehensive licence for a development project in toto. In the last section of the article the author discusses possible reforms of the licensing system. He

presents the reader with a comprehensive list of alternative policies (for example, anti-trust legislation, tariff policy, wage subsidies, investment credits and other forms of credit facilities) which can be employed to control monopolies, develop small scale industry and industrialise backward areas. These policies, the author says, are superior to the licensing system and are also less open to corruption by the bureaucracy.

In his chapter on public enterprises, Deepak Lal analyses the objectives and the investment and pricing policies of public enterprises in developing countries. The rationale behind the establishment of public enterprises is manifold. Public enterprises may be established by the government because in the early stages of development there may be a shortage of capital to set up modern industries such as cement, steel and fertilizers. The government, therefore, has to provide the necessary funding for such projects. Another reason for the establishment of public enterprises is based on economic grounds. Market prices may not reflect social prices as a consequence of distortions in the economy. It is assumed that public enterprises are aware of this dichotomy and can act in a manner which would reflect true social prices. The third reason is noneconomic, that is, political in nature; control over the "commanding heights" of the national economy is necessary so that national wealth is equitably distributed.

In the section on investment policies the author discusses the role of social cost benefit analysis in the selection of investment criteria for public enterprises. He focuses on the similarities and differences of the two main variants of social cost benefit analysis, the UNIDO "Guidelines" and Little and Mirrlees "Project Appraisal and Planning for Developing Countries". The author unequivocally states that detailed social cost benefit analysis of projects is as important as maintaining an accurate system of national accounts and should be followed by all developing countries.

Pricing policies followed by public enterprises play an important role in the national economy as they affect the developmental efforts. On the one hand, prices cannot be set too high for social reasons and, on the other, too low a level of prices would mean that the public enterprise would be unable to finance its capital requirements and other operations independently. It would require going to the government for subsidization which could prove to be a social cost in the long run, to the economy. Therefore, a pricing policy has to be devised that reconciles these two conflicting positions. For this the author gives several general rules within the shadow pricing framework which can be altered to suit specific situations. Finally, the author discusses the role which management can play in effectively running a public enterprise. Improved management technique make for more efficient operation. However, in practice this is not the case and it is necessary that government give added incentives both in material and psychological form to management so that the desired results can be achieved.

In the article on Infrastructure and Location, the author, Mrinal Datta-Chaudhry analyses the linkages that exist between infrastructure and location and urbanization. The physical provision of infrastructure facilities such as transport and communication, power etc. determine to a great extent the location of industry, particularly in urban areas. The pricing of such facilities whether subsidized or taxed, also play a determining role in the location of industry in specific areas. As a result, deficient policies in this area leads to urban agglomeration and concentration of industrial units in specific localities within a country. At the same time the author points out that the state of knowledge in pursuing optimum pricing policies which would reflect optimum urban growth patterns is limited. However, an attempt can be made in some fields such as energy, and transport whereby pricing policies are followed which reflect their true marginal social cost to the economy. Once such pricing policies are initiated the trend to urban agglomeration and concentration of industry can be progressively slowed down and resources diverted to regions that are depressed.

In the article on Industrialization and Agricultural Development the author E.L. Bacha examines the intersectoral links between agriculture and industrial development. Too often, according to the author, have these links been ignored by development planners. Agriculture has a dual role to play in industrialisation, it supplies surplus manpower for industry and secondly provides the means of feeding the urban population. Initially, the author discusses the problem of producing an agricultural surplus for the urban market and the linkage between the agricultural terms of trade and economic growth. This analysis is conducted in a dual economy setting or framework. The author then proceeds to examine the consequences to the rate of economic growth of a "squeeze" on agriculture through instituting foreign exchange controls. Two case studies are discussed, that of Brazil and Argentina during the period 1930-1950. Both the case studies show that controls had an adverse effect on the rate of growth of agriculture as well as industrialization. In the last section of the article the author prescribes what ought to be the correct pricing policies to be followed so that development is not biased against the rural areas.

In the last article on the International Environment, the authors Helen Hughes and Goran Ohlin trace the changes in patterns of trade of the developing countries with the industrialised ones. In the early part of the 1950s most of the trade was confined to primary products and low quality manufactures which involved labour intensive methods of production. Gradually, this gave way to more sophisticated products particularly from countries in East and South East Asia. The authors also examine briefly the role of the transnational corporation in economic development. Their conclusion is that such corporations can play a leading role in development provided they work within a legal framework and with the social costs and benefits of their activities known to the host government. The authors also discuss the various attempts made at regional integration, during the past thirty years. The

results so far, have been mixed. Some have proved successful, such as the European Economic Community and the European Free Trade Association. Other attempts at regional integration, particularly in developing countries have not proved so successful for a variety of reasons. These include a lack of infrastructure, limited markets, limited skills and shortage of capital and technology. However, attempts at future regional integration should not be ruled out. Finally, the authors discuss the problem of adjustment. Recently the developed countries have faced stiff competition from the more developed of the developing countries in the field of ship building, textiles, iron and steel products etc. An easy way round this problem is to raise tariff walls. However, the authors argue that the developed countries should follow appropriate monetary and fiscal policies rather than by raising tariff rates so that resources are re-allocated from the declining industries to the more rapidly developing ones.

As mentioned earlier, the subject matter of this book deals with the experiences of eminent economists at the policy making level in the developing countries. Their experiences have been distilled and put into layman's language thereby bridging the gap between the theoretician and the policy formulator. Each article in the book is self contained, concise and lucid. What makes the book really relevant is its practical approach to tackling various economic problems by utilising appropriate policies. In other words, it can be treated as a manual to be followed by policy makers. A possible shortcoming of this book as recognized by the editors, is that all the emphasis is laid on the manufacturing industry and its role in economic development. Other factors such as education and agriculture have been largely ignored. In conclusion, the book is a useful addition to the literature on policies for economic development.

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