

Book Review

Dirk J. Wolfson. *Public Finance and Development Strategy*. Baltimore: The Johns Hopkins University Press. 1979. Pp. xiv+264.

The world in its politico-economic aspects is run by policy-makers who have an academic background in law or public administration or other related social disciplines including economics. Only rarely would a majority of the policy-makers be trained in economics. In the making of economic policy, the basic choices before the policy-makers are political and they transcend the narrow concerns of economists regarding optimal use of resources. These considerations in no way downgrade the relevance of economic analysis in economic policy-making and for the training of policy-makers in economics. Policy-makers need economic council to understand fully the implications of alternative policy options. In this book, Wolfson attempts to educate policy-makers in the areas of public finance and development strategy. The analysis avoids technicalities and is kept to a simple level to make it understandable to civil servants, law-makers and members of the executive branch whom Wolfson refers to as 'policy-makers'. Simplicity of analysis is not the only distinguishing mark of this book. Most other books on public finance are usually addressed to traditional public finance issues relating to both the revenue and expenditure sides of the budget and neglect an overall mix of issues dealing with the interaction of fiscal policy with economic development. Wolfson in this book explicitly deals with these issues.

The book is divided into two parts. The first half covers Public Spending with an introductory chapter followed by chapters on performance and growth, income distribution, stabilization and administrative action. Each of these chapters is further divided into two sections; the first concentrates on analytical problems and the second on policy-making. The second half of the book deals with resource mobilization aspects of public finance, with an introductory chapter on resource base followed by chapters on Resource Management for Optimal Allocation, Redistributive Justice and Policy-makers, Fiscal Policy and Stabilization, and Administrative Action and Resource Mobilization.

Wolfson's thinking is influenced by the orthodox school, which has led him to plead for the maximum use of market forces and incentives and for allowing market forces to determine the income distribution on allocative efficiency grounds.

This book carries a wilfully anti-inflationary bias. To avoid inflation, the desired amount of public spending must be reconciled with the tax effort the community is prepared to accept and with the domestic savings gap. Since the market mechanism fails to ensure such a reconciliation at the fullest possible level of resource utilization, the task of reconciliation falls to fiscal policy. Macro-economic fiscal policy considerations intended to increase supply of resources tend to de-emphasize the micro-economic advantages of price stability. From a broader perspective, however, there is a need for an overall balance of micro and macro fiscal policy considerations.

The inappropriateness of attempting to understand public policy on the basis of individual citizen's preference alone is now generally accepted. In this regard, the author has correctly pointed out that it is absurd to rely on models of individual choice (such as Lindahl's family of individualistic solutions) in the analysis of decision-making in developing countries. Wolfson has doubts, for instance, that the poverty-stricken farmer in the Peruvian Sierra identifies the purchase of Russian swing-wing fighters or Dutch cruisers as his individual preference in government spending. If individual preferences are overruled, goods are produced by political preference imposition referred to as "privilege goods" i.e. goods which benefit policy makers. Wolfson has no suggestions for improving such a situation.

The statement by the author that "in developing countries, in contrast to industrial countries, the incidence of indirect taxes is often more progressive than that of personal taxes" lacks general applicability in the developing countries [p.201]. In the case of Pakistan, for instance, the incidence of indirect taxes is regressive as compared to that of direct taxes. Wolfson's statement may be valid if one is dealing with selective excise or sales tax. A general excise tax is normally expected to be regressive.

A weak assumption by the author that "to a professional economist, conscience is something that he is not trained to handle. Therefore, politicians usually formulate the public conscience into a policy maker's welfare function, in which the ethical preferences of society are ordered and quantified" [p.52] leads him to assign a role to politicians that they may not be able to play in an effective manner. It is naive to assume that politicians not only can order ethical preferences but are also able to quantify these preferences. A better suggestion in this regard may be that economists can formulate the welfare function with the help of politicians or vice versa.

Throughout the book the author tries to emphasize problems of the poor countries. For instance, Wolfson emphasizes that if it is not possible to describe and predict the exact pattern of any economic activity in developing countries, then we should not adopt the prevailing models of the developed countries if those are not suitable to the conditions of the developing countries. Notwithstanding this realization, Wolfson's Western thinking drives him to the discussion of general applicability

on the assumption that economic analysis has matured enough to enable one to make meaningful contributions to solving pressing economic problems even in cases where no direct empirical work supports a particular policy option. However, Wolfson is successful in presenting the issue which politicians and civil servants are normally unable to tackle.

Wolfson has written this book to provide economic analyses of public finance issues more readily accessible to the body politic of senior civil servants, law-makers, and members of the executive branch (i.e. policy-makers), and undergraduate students. Although Wolfson is successful in writing a book by avoiding the complicated tools of mathematics yet the relatively compressed presentation and the level of writing require a reader to be already well-versed in the relevant area of economic thought before he really is able to understand the reasoning behind Wolfson's conclusions. In general, the book is a thorough, if somewhat compressed, volume which contains a useful analysis of public policy and its interaction with economic development. I feel that the book is a useful contribution in public finance and can be recommended to the professional economists and to those interested in the making and execution of economic policy.

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