

1-1-1992

Economic Crisis and Policy Choice: The Politics of Adjustment in the 3rd World, by J.M. Nelson

Zaki Eusufzai

Loyola Marymount University, zeusufza@lmu.edu

Repository Citation

Eusufzai, Zaki, "Economic Crisis and Policy Choice: The Politics of Adjustment in the 3rd World, by J.M. Nelson" (1992). *Economics Faculty Works*. 6.

http://digitalcommons.lmu.edu/econ_fac/6

Recommended Citation

Eusufzai, Zaki. Review of *Economic Crisis and Policy Choice: The Politics of Adjustment in the 3rd World*, by J.M. Nelson. *Southern Economic Journal* 58 (1992): 828-829.

order for the true worth of these ideas to be ascertained I expect they will require crystallization into a formal schema, just as Hicks used a formal schema so effectively to capture Keynes's own fluffy gray thoughts as found in the *General Theory*.

William Coleman
University of Tasmania

Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World.

Edited by Joan M. Nelson. Princeton, N.J.: Princeton University Press, 1990. Pp. 378. \$45.00

This is a timely book. Economists, during the last few years, have increasingly recognized the role of political variables in the analysis of stabilization policies, both in developing and developed countries. Indeed there is now a burgeoning theoretical literature on what has been called the new political economy approach to macroeconomic policies. The empirical aspect of this literature unfortunately has not been developed to a similar extent, in part because of the difficulties in the measurement of the variables involved. This book, through its country studies, thus fills an important gap.

This book is about the political economy of stabilization policies and structural changes in the developing countries. It examines the adjustment efforts of nineteen governments in thirteen countries and attempts to understand the factors that explain divergent adjustment choices and implementation. The focus is "on the political factors shaping governments' adjustment choices and on the implementation of those choices. Why do some governments respond promptly to signs of economic difficulty, while others muddle indecisively for years? What factors enter the choice . . . to treat difficulties as short-term only, or to adopt a longer-term strategy of adjustment? Why have some countries experimented . . . while most have . . . pursued neoorthodox courses? Why have structural reforms failed to get off the ground in some countries and forged ahead in others? And why, when confronted with heated political protest, have some governments persisted, while others have modified or abandoned their courses?" All throughout the emphasis is on the relevant dependent/independent variables and the specification of the causal mechanisms at work rather than "premature theory building."

There are eight chapters in the book. The authors are all political economists and apart from Nelson, the editor of the volume and a senior associate at the Overseas Development Council, they are all associated with U.S. academic institutions. In the introductory chapter, Joan Nelson describes the global setting in which the stabilization episodes took place and then goes on to set the goals of this study. The goal is to seek explanations for different adjustment choices and implementation efforts among governments in five broad sets of causal factors: (1) the interpretation of the economic crisis (2) the technical and administrative capacity of states to formulate and execute adjustment measures (3) the structure of political institutions and rules of the political game (4) the patterns of leadership, support bases, and political coalitions and (5) the roles of external agencies.

In Chapter 2, Miles Kahler discusses the theoretical underpinnings of the stabilization policies adopted by these governments. He traces the evolution of the competing orthodox and structuralist views of stabilization and growth policies, the eventual dissatisfaction with orthodox policies and the acceptance by the orthodox camp of some of the structuralist arguments. Reading this chapter one might get the mistaken notion that the convergence of ideas has only been in one direction—from orthodoxy towards increasing acceptance of the structuralist viewpoint. In reality, from the experience of recent populist programs in Chile (1970–1973) and Peru under Alan Garcia (which is discussed in a later chapter of the book), the structuralist view of several concepts, including that of inflation and deficit finance have been shown to be flawed.

The next five chapters form the core of the book. Each discusses the actual experiences of several countries. The countries discussed are: Argentina, Brazil, Mexico (Chapter 3), Chile, Peru and Columbia (Chapter 4), Costa Rica, Jamaica and the Dominican Republic (Chapter 5), the Philippines (Chapter 6), Ghana, Zambia and Nigeria (Chapter 7). In these chapters a fascinating variety of experiences are discussed and analyzed. Thus we find out why Argentina, Peru and Brazil adopted heterodox policies and why these were unsuccessful. At the other extreme, we have Mexico, which by and large followed orthodox policies but had to face enormous social costs. We have the experience of the Philippines where the same policies that Marcos was not able to enact were later adopted by the Aquino regime. We come to understand why the Liman government in Ghana and the Guzman government in the Dominican Republic were unable even

to formulate stabilization policies and how, faced with the same state capacity constraint, Jamaica could still follow through with the implementation of its policies while Zambia could not.

Given the wide variety of experiences, Nelson, in Chapter 8, does an excellent job of summarizing the main points of the study with respect to the timing, scope, content and implementation of the stabilization and growth programs. Some of the conclusions are more surprising than others. Thus the importance of a strong central government and/or widespread political power base of the government for the success of all aspects of stabilization policy is not unexpected. A more surprising result is that external agencies turn out not to be so important in determining the timing and scope of adjustment decisions. State capacity, important for the recognition of the crisis, is not important in the formulation of the policies; and in cases where the government could import expatriate technical help, not as important even for implementation.

Without downgrading the importance of the addition of political variables in the analysis of stabilization policies, several comments may be made. First, while most authors have some sort of a model in the background, only Kaufman (Argentina, Brazil and Mexico) and Stallings (Chile, Peru and Colombia) clearly outline their models and refer to the models in their discussion. Without such models, it is hard to make sense of the bewildering variety of results for the different countries, often for the same variable. Second, the descriptive country study approach limits the degree of precision of the results. Thus we obtain results which appear to be inconclusive but which could have been analyzed further using some statistical measures. In fact, the next step in this line of research would be the use of econometric techniques to make the analysis more rigorous. Steps have already been taken in this direction and the econometric literature on qualitative dependent variables has proved to be of immense help in this regard.

This is an important and timely book which, in addition to educating us about the importance of political variables in economic analysis, points the way towards further research in an important field.

Zaki Eusufzai

Loyola Marymount University

The New Subjectivist Revolution: An Elucidation and Extension of Ludwig von Mises's Contributions to Economic Theory.

By J. Patrick Gunning. Savage, Maryland: Rowman & Littlefield, 1991. Pp. xiii, 265. \$37.50.

Method is in fact the principal subject of this work by Professor Gunning, an imaginative follower of Mises. Believing that Mises made discoveries concerning method that established a new subjectivism, which economists and even "Mises's students and closest followers" have not fully comprehended [p. 10], Gunning seeks primarily to clarify the discoveries and to show how the new and the old subjectivism differ, and secondarily to use the clarification to extend Mises's economic theory.

Mises's method has three parts, Gunning seems to propose. The first is his "methodological apriorism." This Gunning identifies with the new subjectivism [p. 21]. This first part, he seems to believe, is carried out via the second and third parts [p. 20, last 5 lines]. The second part, and the subject of lengthy treatment, is Mises's use of abstraction to arrive at the simple, and then the use of progressive removal of abstraction to build up pure theory toward the complex, producing explanations *a contrario*. This procedure, named the "method of imaginary constructions" by Mises, Gunning renames the "method of contrasting images of functions," and uses it, to illustrate, to explain the functions of an entrepreneur by contrasting them with those of an entity in abstraction from not only entrepreneurial but also human qualities, i.e., a "robot." The third part, treated rather separately and later in the book, is what Gunning calls the "method of teleology." (His rationale for this sequencing is at p. 13.)

Gunning seeks to employ his clarification to extend Mises's economic theory concerning entrepreneurship, the "simplest and most fundamental case" of the firm [p. 216], and what Gunning calls guaranty provision, rights creation, and market creation. He does not deal with Mises's ideas about interest, money, trade cycles, international trade, what Mises called interventionism, and socialism.

Among Gunning's conclusions, one is that Mises's method stems from a "devastating critique" of "unhuman" positivism applied to the study of human action [pp. 8, 22, 23, 226], and is a corrective to the "elitism" of most modern economists [pp. 23, 24, 227], for whom Gunning has scorching comments [pp. 9, 10]. Another, and the "most obvious implication of this book," is that "to the extent that economists are interested in the distinctly human part of economic behavior, economics, including what has come