hold income functions show that the education of the household head significantly raises both farm and nonfarm income. The author uses "arena of daily activities" as a measure of "human capital in the broad sense" and whether the household contains a member of the Communist Party or a cadre as a measure of political capital. Both variables have significantly positive coefficients in the case of nonfarm income. Logit estimates of the determinants of access to nonfarm employment indicate that human capital and political capital help in some villages but not in others. There is also indirect evidence that network capital assists access but, again, not in every case. The interpretation placed on these results is that the type of market development and the nature of local governance are missing variables that interact with the variables of greatest interest.

The approach of using mesoeconomic analysis, i.e., comparing different villages, is an interesting one, and one that has been adopted before in studying rural China. However, it is not entirely persuasive in this case. It might have been better to stick to the aggregate of all the households in the combined sample (with its larger sample size) in order to test the hypotheses relating to different forms of social capital. Village-by-village analysis can help to explain why the effects of these variables in access to nonfarm employment differ from one situation to another but the small number of villages available means that there can be only suggestive interpretations and not rigorous tests. Thus here, as elsewhere, the book opens up vistas for further research.

The broad conclusion of the book is that the social capital approach can be fruitfully adopted in development and transition studies. The market should be seen as an institution—as a nexus of social networks—but the institution can vary with the customs, norms, and social structure of the society as well as with the degree of market development. This approach is indeed in line with the trend among development economists to incorporate institutions and social capital into economic analysis. However, Hiroshi Sato is a frontrunner in his willingness to cross the conventional disciplinary boundaries and combine the social and political with the purely economic. (John Knight)

*New Development Strategies: Beyond the Washington Consensus* edited by Akira Kohsaka, Basingstoke, Palgrave Macmillan, 2004, xii + 308 pp.

This book is the result of an international joint research project on "Development Policies Outlook" conducted by the Institute of Developing Economies, Japan External Trade Organization, Japan, for the fiscal years 2000/2001–2001/2002. Past development strategies were reexamined based on the experiences of developing countries and the evolution of development economics in the 1990s.

The commonly shared premise of this research project is that the recent market fundamentalist view of development strategies, which simply seems to regard the liberalization of trade, investment, and financial flows as necessary and sufficient conditions for economic development, should be reassessed. Furthermore, the participants in this project did not feel comfortable with the Washington Consensus which reduces the role of government to macroeconomic stabilization and the provision of public goods.

Chapter 1 by the editor, Akira Kohsaka, neatly summarizes the makeup of the book and the contents of ensuing chapters. The book is divided into four parts. Part I, which consists of Chapters 2–4, considers some fundamental aspects of economic development, including the interaction between markets, governments, and institutions. Development strategies under globalization are analyzed in Part II, which consists of Chapters 5–7. In Part III, which is composed of Chapters 8–10, the Asian financial crisis is examined from the political, country-specific, and sectoral points of view. The final Part IV, consisting of Chapters 11 and 12, presents two case studies on transition economies that analyze the experiences of Kazakhstan and of China and Vietnam.

In Chapter 2, Dani Rodrik raises issues related to the complementary relationship between markets and the state. By focusing on the role of public institutions which Rodrik considers to be inadequately addressed by the Washington Consensus, he argues that market incentives need to be underpinned by strong public institutions, that public institutions function in diverse arrangements, and that these arrangements will and should be formed to fit to local practices and needs over a suitable time horizon.

Jeffrey B. Nugent, in Chapter 3, examines how and under what conditions we can reorient policy and institutional regimes. He examines not only the initiation but also the sustenance of policy reforms by looking at countries which have experienced two types of reform: the introduction of property rights and outward-oriented reforms. Nugent argues that the initiation of big economic reforms is stimulated by a regime change and a significant economic crisis. But at the same time, he argues that sustenance of the reforms requires the new regime to be legitimate and the crisis not too large. He further suggests that, in general, economies with greater income inequality, lower literacy, and higher natural resource endowments have a tendency to have greater difficulty in sustaining their reforms.

In Chapter 4, Kohsaka analyzes the outcome of past development strategies and examines the possible interactions between state and market under globalization. Referring to the uncertainties and asymmetric information stemming from the rather longer time span needed for the accumulation of knowledge and technology, Kohsaka argues that the allocation and accumulation of knowledge and technologies tend not to be optimal under the market mechanism. Moreover, referring to external effects, such as economies of scale and agglomeration related to technological innovation under globalization, Kohsaka argues that there is every reason for the government to provide these knowledge-related factors and/or minimize uncertainties and incomplete information through risk sharing and information provision, but little reason for globalization to substitute for this government role.

When analyzing the possible negative effects of globalization on labor markets and poverty reduction in developing countries, Kaushik Basu, in Chapter 5, argues for international efforts to counter the erosion of global democracy. Under globalization, international labor standards have been forcibly applied to developing countries at the cost of certain developing economies and of certain social groups within nation states. Moreover, Basu argues that globalization is pushing global income inequality to an intolerable level, therefore special international initiatives are required to redress this and ensure stability in the future.

In Chapter 6, Fukunari Kimura discusses industrialization strategies under the changed international economic environment of globalization. The international division of labor by multinational corporations and the disciplinary powers of the WTO and other international institutions have made irrelevant the conventional approaches to industrialization, such as whether to pursue import substitution or export promotion. Kimura points out that the strategy of protecting infant industries, which was the major policy approach in the economic development of Korea and Taiwan in East Asia, is now economically ineffective and politically infeasible. He therefore recommends the Southeast Asian model, where foreign direct investment is actively introduced and trade and investment liberalization is promoted within the WTO framework, as a strategy approach for the future industrialization of developing countries.

In Chapter 7, the final chapter of Part II, Koichi Ohno analyzes the characteristics of market structures that tend to make structural adjustment difficult. Ohno concludes that market structure which structural adjustment policy seeks to achieve diverges greatly from the one that actually exists. Therefore Ohno argues that structural adjustment turns out to be basically inconsistent or irrelevant. Referring to East Asia, Ohno reexamines the role of trade policy during the period of the East Asian Miracle by empirically analyzing the comparative advantage of industries. Ohno concludes that the miracle was due not to the use of static comparative advantages but to the creation of dynamic comparative advantages through policy intervention. Learning effects, agglomeration effects, and technology policy provide rationales for policy intervention within the framework of the theory of endogenous growth.

In Chapter 8, Stephan Haggard discusses three political and institutional aspects of the Asian financial crisis and its management in Indonesia, Korea, Malaysia, and Thailand, the four Asian economies hit by the crisis. The first is that government decision making under different political regimes may result in different economic outcomes because political uncertainties play key roles. Secondly, market liberalization led to the abuse of private power. The third aspect is the possible replacement of the region's traditional thin social safety net as part of crisis and globalization management.

In Chapter 9, Yoon Je Cho discusses how deep-rooted structural problems were the main cause for the financial crisis in Korea. Examining of the bank and nonblank sectors and the lack of coordination between monetary and supervisory policies, Cho argues that the speed of Korea's transition to a more open and more liberal economy is now far higher than many market players had expected, and also has outpaced institutional development. Cho concludes that the transition to a more liberalized economy will continue to be bumpy and unstable because Korea lacks institutions needed to support such an open economy, a social safety net, and an economic incentive structure.

Barry Eichengreen examines, in Chapter 10, the role of hedge funds in international financial markets, paying particular attention to market manipulation and systemic stability. Eichengreen suggests that emerging markets should protect themselves by adopting more flexible exchange rates and some less costly capital control measures such as those in Chile and Malaysia. He also argues that international collaboration is needed in collecting information on bank exposure in investor countries.

In Chapter 11 of the final Part IV, Koji Nishikimi presents a case study of wheat production in Kazakhstan to analyze the difficulties in building a market system for agriculture.

Following the collapse of the state credit system for financing input materials which destroyed production linkages, the government failed to construct alternative production linkages. This has left it to the private sector which has started its own institution building through a trial-and-error process of contractual and organizational reforms among farmers and distributors.

In Chapter 12, Dwight H. Perkins argues that sooner or later the governments of Vietnam and China will have to face the decisions about the future of their economic systems and their roles in the economy. He continues, however, that so far Vietnam and to a lesser extent China appear unwilling to minimize the role of government in ownership and control. Perkins argues that China and Vietnam stand in sharp contrast to Japan, Korea, and Taiwan in the 1960s and 1970s. If China and Vietnam are to reap the fruits of globalization, they must follow the new rules of the game in the world economy, which Japan, Korea, and Taiwan never had to face. Secondly, Perkins concludes that the two countries have little choice but to orient themselves towards more openness and less government intervention in order to protect the governments from political and rent-seeking pressures.

As the above summary of the chapter contents and major findings indicate, this book covers the broad issues related to markets, states, and institutions, and analyzes the issues in depth. Joseph E. Stiglitz[1] wrote critically of development strategies and policies based on the Washington Consensus because of the asymmetry of information. Stiglitz's book, however, is only for the ordinary reader, while the present book is the first academic effort in recent years to reexamine the development experiences of developing countries with a critical view of the Washington Consensus and market fundamentalist thinking. Every development economist, therefore, should give this book serious attention.

Nevertheless, I have several comments on this book. All the authors emphasize the importance of the role of government in promoting economic development. However, none pay serious attention to the cost of government failure.[2]

According to Charles Wolf, four principal sources and types of government failure result from the several distinctive characteristics of government demand and supply. The first is the disjunction between costs and revenues in the government budget. The second source of government failure is related to internalities and organizational goals. The third source of failure concerns the maximum objectives of specific agency such as budget growth, technological advance, and information acquisition and control. The final source of government failure is related to derived externalities and distributional inequality. Since all the sources of government failure can be found in every country, it would be seen that the cost of government failure is not small. Therefore, when choosing favorable development strategies and policies on a practical basis, the cost of government failure also has to be taken into account.

A second comment is related to coordination failure in the market mechanism. M. Aoki, Hyung-Ki Kim, and M. Okuno-Fujiwara applied the coordination failure paradigm in ana-

[1] Joseph E. Stiglitz, *Globalization and Its Discontents* (New York: W. W. Norton, 2002).

[2] For example, Charles Wolf, Jr. raised issues related to government failure as nonmarket failure in Charles Wolf, Jr., ed., *Markets or Governments: Choosing between Imperfect Alternatives*, 2nd ed. (Cambridge, Mass.: MIT Press, 1993).

lyzing the role of government in East Asian economic development.[3] Were we to apply this paradigm to the development experiences of developing countries, the complementary relationships between markets and states could have been explained quite differently from those in this book. (Hideki Imaoka)

[3] Masahiko Aoki, Hyung-Ki Kim, and Masahiro Okuno-Fujiwara, eds., *The Role of Government in East Asian Economic Development: Comparative Institutional Analysis* (London: Clarendon Press, 1997).

## *The Mystery of Economic Growth* by Elhanan Helpman, Cambridge, Mass., Belknap Press of Harvard University Press, 2004, xiii + 223 pp.

In this book, Elhanan Helpman reviews and analyzes economic growth, by pointing out the importance of input accumulation, trade, inequality, innovation, productivity, and institutions. He uses the most basic concept to outline what we know, what we do not know, and what we ought to know about the subject in a comprehensive and understandable manner. Such an approach should enable even noneconomists to become involved in the "growth mystery" without resorting to complex mathematical formulations. This reviewer interprets the "growth mystery" as the inability to fully and systematically account for economic growth, in spite of the progress in our understanding of the above and other factors affecting it. Compounding the mystery is the fact that for some of these factors such as institutions, research is very limited, although they have the potential to revolutionize our understanding of the issue.

Three main features of this book stand out. The first (main) feature is the author's emphasis on quality ladders (directly resulting from innovation via the creative destruction process) and institutions as the main drivers of economic growth.[1] Building on Romer's model of knowledge externalities, the author argues that the mechanism of quality ladders is central to growth through the process of creative destruction in which higher quality products drive out lower quality ones from the market. The analysis on creative destruction is in agreement with similar views held by Schumpeter, and others, who consider that change is not a smooth adjustment at the margin, but is an abrupt and uneven displacement of one technology by another. Thus the author indicates that economic growth is a disequilibrium process in which some firms grow whilst others shrink from competition. This is contrary to the concept of Marshall and the mainstream neoclassical economists who place so much emphasis on equilibrium phenomena.

[1] Thus the author—just like Philippe Aghion and Peter Howitt ("A Model of Growth through Creative Destruction," *Econometrica* 60, no. 2 [1992]: 323–51), Paul M. Romer ("Endogenous Technological Change," *Journal of Political Economy* 98, no. 5, part 2 [1990]: S71–S102), and others—is a proponent of the New Growth Theory (NGT), in which economic policies exert a significant impact on the economy through changes in the incentives for innovation.