

BOOK REVIEWS

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Kala S. Sridhar and Om P. Mathur. 2009. *Costs and Challenges of Local Urban Services: Evidence from India's Cities*. Oxford University Press: New Delhi. ISBN: 978-019-806084-0. 263 pp. \$39.

Reviewed by *Michael C. Farmer*, Texas Tech University

The poor in explosively growing cities around the globe are experiencing enormous pressure from the sluggish and checkered provision of basic public services: water; sanitation; and rudimentary public health. The irony of greater prosperity coupled with loss of real ground for many long-time urban citizens in the less privileged classes is not lost on the authors.

The book starts with a background review of public services provision in mid- to large-size Indian cities, especially those at the forefront of explosive urban growth. If all politics is local, then the achievements and aspirations of Indian democracy are opened raw in the operations of city services. Here we see the promise and the still enormous challenges. The impediments of poverty, a slow and omnipresent bureaucracy and at times even a corrupt public management apparatus motivate a work that seeks to fully professionalize, or to instill an attitude of appreciation for the grave responsibility that the reliable and cost effective delivery of city services requires among city service managers. The authors, in a not so quiet way, are on a mission.

The authors address the concern that water should be priced roughly at its efficient marginal provision cost, with some pricing premised on the recovery of incremental fixed infrastructure costs (such as block pricing). The review is quick; and for the urban policy scholar unfamiliar with this topic, the review is worthwhile. The authors have another point. They go beyond the current mantra that water revenues and prices pay for water provision – or no cross subsidization should occur, which is often the end of the discussion. They seek to examine what they think is a more critical problem: what is the reasonably efficient delivery price of water and sewage (solid waste disposal) services? Many of the urban water development models on water are reminiscent of early World Bank misassumptions: more infrastructure base is better, and universal and uniform service delivery is the goal. This seems to miss many institutional impediments.

So the book then reviews water and solid-waste pricing and provision before applying an exercise with several variants of marginal cost service estimation and benchmarking evaluation. In the grind of their data and analysis, the authors pose an interesting thesis. The bulk of their argument centers on benchmarking of city services against the experiences of equivalent urban centers. Benchmarking is tricky business; but worth the effort when supported by common sense. The news of nine hundred dollar hammers always reflects poor accounting; but is it something sinister or well within the intended goals of taxpayers? To simply note that a very real complex array of requirements and organizational accounting rules might explain this seeming anomaly is not enough. Transparency requires that a reasonable person be able to add it up herself, that the inflow of resources and the outflow of services make sense so that the flow of resources is satisfactorily comprehensible, and that the final arbiter of whether the citizenry is

convinced (short of being disruptive for its own sake) lies with the citizenry. That is the account the authors want. I hope they can get it.

The smoke that the authors' accounts identify does smell like fire. As such, it is a call for accountability, not the final accounting exercise itself; nor should it be. There is enough to level a charge but not to convict; and the authors appropriately stop where many economists push to a final conclusion. As such some of the different estimation processes I might want to suggest really are premature. Still the machinery itself behind their call for alarm is likely to interest few.

The institutional overview is thin and likely would not satisfy public managers or those studying public administration; nor would public choice or policy economists learn much or find much to use here. In addition, regional scientists would want a deeper planning context and water managers would find the fundamentals of their trade scarcely acknowledged. Still the exercise is worthwhile, even if few read the entire text. This work is clearly citable even for those who will never purchase the book. The passion, energy, and dogged commitment to find and use whatever data are available are laudable and, therefore, noteworthy.

Those who enjoy traditional benefit-cost analysis of public programs and projects can find classroom ready case studies here where evaluation is the issue. This work clearly focuses on the cost side of the economic analysis and leaves benefits simply to a delineation of the services actually delivered. Evaluation is seldom the dramatic reauthorization review we teach; it is typically cost accounting, benchmarking, and service delivery measurement. It is not always clear what costs to measure and how to collect and coordinate the data for a meaningful benchmarking review. This work, though it does not tell you the logic behind the regimen in too many instances, does exemplify a well designed and well ordered assessment given the purposes of the evaluation.

It is unfortunate that the only glimpse many educated persons, even some scholars interested in water policy development in urbanizing areas in emerging economies, have of these topics may be the incredible tragedy and confusion dramatized in the recent film "Slum Dog Millionaire." The neglect and brutality possible in what seems a good application of Western-styled public service systems shows the inadequacy of easy pricing and infrastructure planning regimes. That subtlety explains the authors' strategy to collect and review accounts, match cost and price to service, and benchmark the provisioning at all levels of service delivery, planning, and pricing. I believe the dream of efficiency analyses shaming public servants and politicians has been shown to have been too naïve; but it is still worth the effort. At least the measurement of each separate service component is useful.

In the end this is a fine and exceptional report for what it aspires to achieve. I'm not sure the minutia and the organization—back and forth between pricing and cost estimation and a final example—enhances some of the impact of their special voice here. I applaud the work, and encourage libraries and the occasional class to buy it. I for one will cite it. I'd like to see more from the authors as their message matures and they read their audiences better. At the moment, the exciting reformist motives this reader thinks is justified are lost on most readers unsteeped in these issues, lost in a much more report presentation form made into a book, missing the larger audience they might reach.

Wood, Richard E. 2008. *Survival of Rural America: Small Victories and Bitter Harvests*. Lawrence, Kansas, University Press of Kansas ISBN 978-0-7006-1577-3 (cloth), ISBN 978-0-7006-1725-8 (paper). 235 pp, \$34.95, \$19.95.

Reviewed by *William A. Schaffer*, Georgia Institute of Technology

Survival of Rural America is a remarkable book. Tightly argued and thorough, it is just what you would expect from a practicing Denver attorney and former reporter who competently assumes the role of regional economist. Technically, it is what we have come to expect from a university press: a total of 223 error-free pages of text organized into three parts and 15 chapters and supported by almost 400 footnotes. While not my intention, I read the whole thing and remain stunned by the author's reach and style – his vocabulary even extends to “troglodytes,” caveman-like creatures I have seen mentioned only once in the economic literature of the last 50 years.

Part I documents the decline of rural America, pointing out the effect of rapid technological change, especially in agriculture. In 1790, farmers were 90 percent of the population; in 2000, they number 1.9 percent. In 1900, rural areas had more than 60 percent of the population; by 1950 their share was about 50 percent; and by 2000, the rural population was down to 20 percent. Richard Wood also observes that urban city cores lost population at similar rates until 1990, when “the United States had more people living in the suburbs than in cities and small towns combined.” The ebb and flow of populations and its causes and consequences is *a*, perhaps *the*, major concern of regional and urban economics. By the end of this book I was considering renaming my course as “Rural and Urban Economics,” but I don't think it would sell very well at a technological university.

Wood persistently decries the chances of rural survival and to justify considering Kansas as the essence of rural America. Part II examines the strategies possible for rural survival through a review of selected counties in Northwest Kansas. Strangely, the review is so interesting you read simply to see what comes next, and you begin to wonder how Wood accumulated and analyzed this substantial amount of information. The following suggests the variety he finds in rural America:

Descriptions of Plainville make it seem like the Smallville in which Superboy was raised. Its neighbor, Codell, never survived a string of four tornadoes in annual succession, culminating in an F4 tornado in 1918; today “it exists as a small, friendly, well-maintained, unincorporated village, with a Baptist church, no retail activity—unless you count a couple of soft-drink vending machines—and no paved streets.

Atwood, in the absolute northwest corner of the state, is actively pursuing small businesses using a model developed in Nebraska and involving “... four tenets: developing leadership, energizing entrepreneurs, attracting and engaging youth and stimulating charitable giving” Leaders there believe that women may be the key to development and seek their active involvement. Tipton, with 243 people, refused to let its school go and maintains a complete K-12 system.

The descriptions become more unusual as he continues.

Lucas, a town of 436 people, was founded in 1887 by Samuel Dinsmoor, a teacher, farmer and Civil War veteran from Ohio. He left and returned in 1905 with a wife and four children. In 1907, and here the story really starts, this 64-year-old man built an unusual eleven-room log cabin entirely from limestone logs. and then, over the

next 22 years, he built his house a large reinforced-concrete sculpture called the Garden of Eden over and around his house. Rising to a height of 40 feet, this work of art contained more than 113 tons of cement molded into 150 statues supported in 29 concrete trees. One more wife and two more children later, he finally died at the age of 89 years. Dinsmoor's work is now owned by the Lucas Grassroots Art Center, making Lucas a significant tourism attraction.

Sedan, with a 1,306 population, always had a positive attitude and responded to the top-down leadership of Bill Kurtis, a former CBS news anchor, who bought, rebuilt and sold virtually its entire downtown while developing his 12,000 acre ranch specializing in grass-fed beef.

Part II concludes with another example of the importance of local leadership, the case of Dave Rose and the selling of Gaylord, a community of 120 people in north-central Kansas. Rose started his internet marketing career selling salvage vehicles as an employee of Farm Bureau Insurance. Upon early retirement and on the suggestion of a friend, he undertook the task of selling an abandoned school in Gaylord on eBay. Expecting no sale at all, he was surprised to get \$25,000 for the building, and more surprised when it was occupied by a niche audio electronics firm from Seattle. Impressed, Rose started Midwest eServices, Inc. to market abandoned school buildings. His firm now works nationally, has sold hundreds of buildings and has been responsible for numerous business expansions into these properties. He believes that "...demographics, technology, low costs—and a concern for security – are on the side of rural America."

Part III explores policy options for rural America. The Federal Government's role has been significant since 1933, but Wood seems to consider its role to be relatively stable except for its possible roles in sustainable agriculture and ethanol production, the subjects of his final two chapters.

Wood says that "Much as the industrial revolution transformed manufacturing and cities, industrial farming and ranching have transformed agriculture and rural communities." Wood proceeds to trace the transition from small labor-intensive, multidimensional, self-supporting farms to large-scale single-crop farms using all that modern technology can now provide. Concerns about the "unfortunate ecological consequences" have led to a search for "sustainable agriculture." He relies heavily on Wes Jackson, founder of the Land Institute, who argues for full-speed development of "polycultural perennial agriculture" before the decline of fossil fuels leaves us in a severe food crisis.

Ethanol production is similarly treated in low key as a potential savior of the rural Midwest. Too much corn would be needed to make a difference. I salute the author's thoroughness: his research identified a biofuel plant built by an old friend of mine—way down in Soperton, Georgia.

The last chapter optimistically explores the potential for building the Buffalo Commons, a great grasslands preserve spreading over much of seven states in the Upper Midwest. An unnumbered Afterword neatly summarizes the differences between urban and rural life in terms of jobs and lifestyles. Jobs are easy to count and Wood wastes little time on them, but lifestyle is difficult to evaluate as a whole. He finds two things whenever he goes to small towns. One is that everyone waves or nods or says hello to others. The other is that almost everyone feels, correctly, a deficit in material amenities. But then, he observes, the rural areas enjoy other amenities including "... low crime rate, affordable housing, open space, recreational

opportunities, and good schools.” He puts “a high degree of closeness, of intimacy,” on the questionable list: absent in big cities, it is a great asset for community-oriented people, and a drawback for criminals and teenagers. As many of us can attest, growing up in a small town is like having a hundred mothers—it is hard to get away with anything!

In summary, this book is an outstanding contribution to the literature. If you are short on time, at least read the Introduction and Afterword.

Mario Cimoli, Giovanni Dosi, and Joseph E. Stiglitz (Ed.) 2009. *Industrial Policy and Development: The Political Economy of Capabilities Accumulation*. Oxford University Press: New York, ISBN: 978-0-19-923527-8 and 978-0-19-923526-1. 608 pp. \$45 (paperback) \$120 (hardcover).

Reviewed by *Nalitra Thaiprasert*, Ball State University

Industrial Policy and Development is a valuable contribution to the academic and policy debates by offering an updated and rich discussion on industrial policies and development. It provides an excellent historical perspective as well as a comprehensive, in-depth exploration of industrial policies that will be of interest to both academics and policy makers. The book starts with a criticism of the Washington Consensus. This “thinking” was advocated in the 1990s by Washington, D.C.-based international financial institutions such as the IMF, World Bank, and the US Treasury Department as policy advice prescribed for developing countries. The policy was initially designed for the recovery of Latin America from the economic and financial crises of the 1980s. This advice, based largely on less government, liberalization, privatization, fiscal conservatism, etc., downplayed the role of government in steering the processes of technological learning and economic growth. From different angles, the authors analyze how industrial policy does work when given the right conditions (discussed below). As the empirical evidence shows, most Asian countries that pursued their own industrial policies experienced high economic growth. On the contrary, Latin American countries, which adopted advice of the Washington Consensus, experienced inefficient and poor economic growth.

The book includes contributions from leading academics and experts in this area; one of the editors is Nobel Prize winner Joseph Stiglitz. The book consists of 4 parts and 20 chapters. The first part, Chapters 1-3, with separate contributions by the editors, *Richard Nelson*, *Carolina Castaldi*, and *Nelson Correa*, is a general introduction that provides a policy background with numerical evidence related to industrial policies and development. The authors set the tone of the book reviewing the currently accepted realization regarding the failures of Washington Consensus policies. They argue that industrial policies are the intrinsic fundamental ingredients of all development processes and for ‘great industrial transformation.’ The notion of industrial policy understood in the book comprises policies affecting infant industry support, trade policies, science and technology policies, public procurement policies affecting foreign direct investments, intellectual property rights, and the allocation of financial resources. As the editors explain, a great transformation entails a major process of accumulation of knowledge and capabilities (not only education, skills development, and technological learning, but also problem-solving knowledge embodied in organizations) at both the individual and organizational levels. These industrial policies come together with processes of ‘institutional engineering’ shaping the very nature of the economic actors, the market mechanisms and rules under which

they operate, and the boundaries between what is governed by market interactions, and what is not.

The second part of the book, Chapters 4-7, contributed by *Erik Reinert*, *Michele Di Maio*, *Yilmaz Akyüz*, and *Wilson Pares*, gives a historical perspective of industrial policies of both past and presently developing countries. Taking a centennial perspective, in Chapter 4 *Reinert* identifies a kind of invariance in the inspiring principle for successful catching-up policies, namely a philosophy of emulation vis-à-vis world technological leaders, irrespective of revealed comparative advantages. The absorptive capabilities are the important factors for activities of emulation as past achievement in knowledge accumulation influences future learning potential. What I find very interesting from this part of the book is the discussion about the role and effects of international trade and industrial tariffs on development in Chapter 6 by *Akyüz*. The author discusses the importance of trade policies for local industrial development and assesses the consequences of the newly introduced constraints in their current use, stemming from the WTO regime of international exchanges.

After providing the historical perspective in the second part of the book, the third part is concerned with the national and regional experiences of adopting industrial policies. The first half of this part of the book, Chapters 8-12 by *José Gabriel Palma*, *Bernado Kosacoff*, *Adrián Ramos*, *Antonio Barros de Castro*, *Ajit Singh*, and *Carl Dahlman*, discusses the experiences of Argentina, Brazil, India, China, East Asia, and Latin America. Chapters 9, 10, and 11 reconstruct the role of both macroeconomic and industrial policies along the history of individual country's developments. This discussion is book-ended by Chapters 8 and 12, which contain a comparison of different countries or regions and examines their performances while trying to identify the role of policies underlying the different patterns of specialization and growth. I personally find Chapter 8, "Flying Geese and Waddling Ducks: The Different Capabilities of East Asia and Latin America to 'Demand-Adapt' and 'Supply-Upgrade' Their Export Productive Capacity" by *Palma*, to be very engaging for its extensive evidence and great discussion on how East Asia achieved high growth while Latin America lagged behind. The author also provides an interesting discussion on the role of Japan as a strong goose leader compared with the U.S., which seems to fly in reverse.

Also of interest in this third part of the book are the deliberately controversial two chapters, in which the authors, *Singh* and *Dahlman*, have quite different viewpoints on the industrial and economic development process of India. Many chapters in this part emphasize that successes in industrialization require compatible macro policies, including exchange rates, taxation, fiscal policies, public investment, governance of the labor market, and income distribution, but excluding policies which are bound to suffocate industrial development, such as those applied by the Washington Consensus.

The second half of the third part, Chapters 13-19, concentrates on experiences in terms of the roles of institutions, such as political regimes, universities, firm ownership, financial institutions, and entrepreneurship in industrial and economic development. Chapter 13 by *Mushtaq Khan* and *Stephanie Blankenburg* discusses the political economy of industrialization. The authors argue that the process would be successful if there were a compatibility of technological and organizational strategies with the political constraints arising from the distribution of power among social groups. This involves the political ability to allocate "developmental rents" to the actors of the 'great industrial transformation' which will spur the "developmental compulsion" and give the momentum to imitation, productivity growth,

production expansion, and eventually innovation. Chapter 14 by *Roberto Mazzoleni* and *Richard Nelson* explains that the knowledge accumulation process, besides occurring to a good extent within the business firms, should be supported and nurtured by the activities of applied research, training, consultancy, and adaptation of technologies to local conditions undertaken by universities and public laboratories.

Alice Amsden argues in Chapter 15 that most often the accumulation of technological and managerial capabilities has historically occurred within domestic firms rather than within subsidiaries of foreign-owned firms because multi-national corporations often carry a relatively limited technology transfer and keep the most tacit forms of knowledge and a good deal of R&D activities in developed countries. In Chapter 16, about the financial institutions, *Colin Mayer* argues that one of the crucial points for institutional engineering in developing countries is the development of institutional arrangements to foster relations of trust in equity intermediation since technological learning requires, besides investment in physical equipment and intangibles, the mobilization of financial resources and their transfer to industry.

In Chapter 17, *Mario Possas* and *Heloisa Borges* discuss competition policy and industrial development. They explain that competition policies should be seen as the set of measures providing the incentives as well as the sticks that foster innovative behaviors. They argue the industrial policies, such as performance-related allocation of finance, subsidies, and diverse taxation, have typically been introduced in all of the then “catching-up” countries like the U.S., Germany, and Japan. In addition, historical experiences show that the potential conflict between competition policies and industrial policies tends to fade away as catch-up proceeds, turning into nearly complimentary. The authors suggest the competition policies should become an important ingredient of industrial policies when there are negligible trade-offs between them.

Mike Hobday and *Fernando Perini*, in Chapter 18, analyze the role of entrepreneurship in the development process, arguing the types of entrepreneurial and managerial abilities required in the catch-up process are the devotion to manipulate and improve the products and production technologies as well as the ability to implement them. On one hand, the easiness of emulation/imitation is modulated by the degrees of appropriability of the various technologies; on the other hand, the appropriability conditions are also affected by the regimes of Intellectual Property Rights (IPR). As the issue is discussed in Chapter 19 by *Mario Cimoli*, *Benjamin Coriat*, and *Annalisa Primi*, some tighter IPR enforcements could affect the imitation/catching-up process in a harmful way, even at the cost of world moral outrage.

The editors conclude in the last chapter, and fourth part, that the threats from globalization to the late-comers or frontier countries add to the demand for the governance of the political economy of industrial development. As has already happened, all the countries that are nowadays developed undertook relatively high degrees of intervention to support the accumulation of technological capabilities and the transformation of their organization of production, especially in the early period of industrialization. Historically, the magic bullet that drives industrialization seems to be the process of accumulation of technological and organizational capabilities that are matched by a congruent macroeconomic management and political economy, which offers incentive structures conducive to learning-based rent seeking and curbing it at the same time.

After the book begins with the reference to the Washington Consensus, declaring that it is over and buried by the weight of its economic failures, it tries to build on a different diagnosis of

the obstacles to and drivers of development. The editors propose a novel international consensus, a *new pact* that contains a plea for an alternative view of governance of international economic relations, involving four major elements. First, there ought to be much greater provision for “managed trade” in order to allow “infant nurturing” with time limits and under transparent conditions. Second, there ought to be a stop on the anti-developmental bias of agricultural trade policies in all developed countries. Third, there ought to be a reform of IPR regimes, at the international level and domestically within developed countries, towards a reduction of IPR protection in terms of domains of patentability and patent scope. Fourth, the *new pact* should try to correct the widening gap between productivity and wages in both developed and developing countries. This allows for the possibility of developed countries to require that their imports originate from countries where standards concerning child labor, work conditions and working hours, the right to unionize, and environmental respect are fulfilled. In fact, these proposals would make a major contribution to redress a worldwide tendency toward ever-growing income inequalities, within a larger pro-development international deal fostering knowledge accumulation and industrialization in catching-up countries.

To conclude, *Industrial Policy and Development* is well-organized, well-written, and well-edited. I highly recommend it to both policy makers and scholars. It provides an important step in furthering discussions about the current organization of international economic relations.