

exporters is that firms have to continually adapt to new conditions. What worked well yesterday may not work well today. Today's production techniques and methods have to be scrutinized on a regular basis. Another lesson is that large-scale mass production is no longer needed to compete internationally. ASEAN exporters can successfully compete by focusing on the demands of limited segments in foreign markets. Furthermore, a related lesson for ASEAN is that, in the contemporary global environment, manufacturers have to produce the products that are demanded by foreign customers, and not just foist whatever is available locally upon export markets. These are valuable lessons, especially for new ASEAN players.

Made in America is simply the best book on the topic of the decline in American productive performance. In a crowded field, it stands above the crowd. The main reason is that it focuses on what really matters: how production takes place; and the book examines this from the ground level. The six chapters summarizing the patterns of behaviour are extremely well written. The authors were able to assemble a large amount of information about many industries and firms and present it in a concise, coherent manner. Their presentation is clear, well-organized, and convincing. The book's shortcoming is the second half. The industry studies add little to the material presented in the first half and thus these chapters could easily be skimmed over. For a deeper understanding of the various industries one should turn to the two volume set of working papers.

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***Economic Policy Management: A Japanese Approach.* By Naomi Maruo.** Tokyo: Chuo University Press, 1990. Pp. vi, 267.

This book, a collection of articles by Naomi Maruo, is basically about the Japanese economy and economic policy in Japan.

In the introduction, Maruo summarizes each chapter and major findings of the study. Chapter 1

introduces for consideration a methodology for economic policy. The conclusion to this chapter indicates that the Japanese do a better job in the field of applied economics than in theoretical economics. Although Chapter 1 provides a constructive beginning to our understanding of the Japanese economy, there is much more that needs to be done to understand fully the Japanese approach to economic policy management.

Chapter 2 is an important first step in studying the dynamics of structural change in the Japanese economy. It should be of interest to ASEAN countries since Japan's experience with economic structural change in the 1960s is now largely being repeated in Asian NIEs. Japan itself is undergoing a mature state of economic and social development.

Chapter 3 discusses Japanese living standards and welfare, specially in comparison with the United States and European countries. Readers might have difficulty in understanding the empirical evidence provided by Maruo since a comparison of welfare indicators in each country cannot be accurately made. However, some economists believe that Japan is a "welfare superpower" equal to any in the West (Yatsuhiro 1979).

Chapter 4 can be regarded as a seminal piece of work with regard to our understanding of three important socio-economic factors: ageing population, social security and personal savings. Maruo concludes:

... The ageing of the population at a high pace has the following influences on social security as well as on the balance and growth of the economy. First of all, as the cost of social security increases remarkably at the earlier stage of ageing, the disposal (after tax) income and private consumption of the present labour force generation tend to increase at a lower growth rate than that of the GNP. Secondly, if pension systems are based on terminal funding schemes, the ageing of the population increase savings (net increase of the amount of the pension funds) at the earlier stage of the ageing of the population. Thirdly, there is a time lag between the increase of social security benefits and the decrease in the personal savings ratio. (pp. 126)

The fact that there are a number of empirical studies which show that the impact of social security on

personal savings is not yet conclusive (Hamada 1989; Hayashi 1989; Horioka 1989). The age structure of Japan's population suggests that its young population will continue to decrease because of the low birth rate, while its elderly population will continue to increase because of increasing longevity. Maruo also notes that the Japanese economy may fall victim to "the Japanese disease" with the graying of Japan's population in the 1990s. That is, Japan's economic growth and performance may suffer mainly because of supply-side factors. Nevertheless, perhaps this may not happen in Japan, because, judging from projections of the world population, the Japanese have the longest life expectancies in the world (United Nations 1989).

Chapters 5 and 6 have more applied macro-economic theories, particularly relating to price stability and income distribution. These two chapters have seemingly strong empirical support. Another important contribution that Maruo renders in Chapters 7 and 8 is to analyse substantively the unique features of Japanese companies that lead to a high rate of productivity growth. Why does Japan have a high rate of productivity growth? Maruo provides the following list of explanatory factors:

- a) Incentive to save and investment for increasing the capital/labour ratio;
- b) Incentive to technological progress;
- c) Incentive to efficient work efforts ... (pp. 192).

... A high level of cooperation and integration between labour and management as well as among employees in their company is supposed to be one of the unique features of Japanese labour-management relations (pp. 241).

Indeed, Chapters 7 and 8 are particularly well done. The final chapter discusses very briefly the best way to approach a new type of welfare society, e.g. "welfare mix" and "ownership mix" where the public, private and informal sector are mixed optimally. Maruo clearly faced a difficult task in organizing this chapter but he has succeeded to some extent.

On the whole, this book makes an original contribution to theoretical, econometric, empirical and institutional findings about the Japanese economy. Indeed, this book offers extremely valuable and thought-provoking reading.

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***Governing the Commons: The Evolution of Institutions for Collective Action.* By Elinor Ostrom.** Political Economy of Institutions and Decisions Series. N.Y.: Cambridge University Press, 1990.

How should we limit the use of common-pool resources so as to ensure their long-term economic viability? In *Governing the Commons*, Elinor Ostrom, co-director of the Workshop in Political Theory and Policy Analysis and professor of political science at Indiana University, offers an overview of the array of problems that are associated with governing and managing common-pool resource systems and illustrates the diversity of possible solutions to these problems. This is an ambitious work, with a fair amount of good reading in it and much that is bound to be familiar to anyone who has followed contemporary debates regarding the theory of public and social choice, the new institutional economics, law and economics, critical legal studies, the economics of transaction costs, and game theory.

Ostrom's specific aim is to challenge the notion that common-pool resource problems can only be

solved through intervention by the state, and to begin to develop a theoretical framework to better understand the capabilities and limitations of self-governing collective actions for regulating common-pool resource systems. Six chapters provide a more or less comfortable sequence of topics for a critical review of the foundations of policy analysis as applied to common-pool resource problems and an exploration of the conditions under which common-pool resource problems have been satisfactorily or unsatisfactorily solved.

Ostrom first undertakes to explain the limited utility of the models which have most frequently been used to advocate state and market solutions to common-pool resource problems. In particular, the author denies the applicability of such models to smaller-scale common-pool resource problems, where individuals can communicate, can learn to trust each other, can learn the effects of their actions, can learn how to organize, can develop shared norms and patterns or reciprocity, and possess skills with which they can build self-governing institutional arrangements for resolving common-pool resource problems. Ostrom also highlights the relative importance of these models in supporting externally imposed solutions to resource use problems. As the author notes,

The models that social scientists tend to use for analyzing CPR problems have the perverse effect of supporting increased centralization of political authority. First, the individuals using CPRs are viewed as if they are capable of short-term maximization, but not of long-term reflection about joint strategies to improve joint outcomes. Second, these individuals are viewed as if they are in a trap and cannot get out without some external authority imposing a solution. Third, the institutions that individuals may have established are ignored or rejected as inefficient, without examining how these institutions may help them acquire information, reduce monitoring and enforcement costs, and equitably allocate appropriation rights and provision duties. Fourth, the solutions presented for “the” government to impose are themselves based on models of idealized markets or idealized states. (p. 216)

Policy prescriptions hinging on the notion that institutional change must be externally imposed on

the individuals affected are also critiqued in the first chapter. Ostrom presents well the argument that economists make false presumptions about the state’s monitoring and sanctioning capabilities, and about the accuracy of information available to the state and the costs of administration when they advocate state solutions to prevent the destruction of resources held in common by many individuals. Perhaps as a natural reaction to the extensive body of environmental legislation passed during the 1960s and 1970s in Europe and the United States, there has been a growing concern with the costs and complexities of environmental regulation, including state imposed common-pool resource schemes. In many areas these problems have been manifested in lengthy, uncertain, and complicated regulatory processes and in conflicting statutory responsibilities for local and central government authorities. These delays and inconsistencies have often been exacerbated by conflicts between uses and a lack of incentive for cooperation or long-term policy commitments by regulatory authorities and the affected communities of individuals. The claim that only a full-blown private property regime can hope to avoid the tragedy of the commons is also addressed. Privatization advocates, Ostrom points out, don’t take into account the problem of defining private rights to some common-pool resource, and ignore the fact that even when particular rights are unitized, quantified, and salable, the resource system is still likely to be owned in common rather than individually. While some points could have been more pointedly and persuasively made, overall Chapter 1 makes it clear that different models and policy prescriptions are needed to analyse and solve the diversity of situations broadly referred to as common-pool resource problems.

Subsequent chapters comprise the main contribution of the book and include some interesting observations and conclusions. Ostrom attempts to outline an alternative theoretical framework for understanding self-organized collective action in Chapter 2. She suggests that stable institutions of self-government can be treated if certain problems of supply, credibility and monitoring are solved. Chapters 3 through 5 examine case studies of self-organized actions — both successful and unsuccessful — of governing the commons. Ostrom uses these cases

as an empirical basis to learn how institutional arrangements related to the effective governance and management of common-pool resources work, and how individuals change their own institutions. Among the cases considered are communal tenure in meadows and forests in Japan and Switzerland, irrigation communities in Spain and the Philippines, ground water basin projects in California, irrigation development projects in Sri Lanka, and fisheries in Canada, Sri Lanka and Turkey.

These chapters give a taste of the wide-ranging and extensive material that has been written about the strategies communities adopt to cope with common-pool resource problems. As the author admits, however, there are limits on the types of common-pool resource case studies examined,

... (1) renewable rather than nonrenewal resources, (2) situations where substantial scarcity exists rather than abundance, and (3) situations in which users can substantially harm one another, but not situations in which participants can produce major external harm for others. Thus, all asymmetrical pollution problems are excluded, as in any situation in which a group can form a cartel and control a sufficient part of the market to affect market price. (p. 26)

From the point of view of Southeast Asian readers, the absence of much empirical data from the Third World is also conspicuous and disappointing, especially in Chapter 4, which analyses case studies for what they reveal about the process of institutional change. The material examined, nonetheless, provides useful insights into the role self-governing institutions can play to help individuals cope with common-pool resource problems with reasonable degrees of success over the long-term.

The final chapter summarizes the lessons that can be gleaned from the case studies and discusses the implications of these findings for designing alternative self-organized schemes of governing the commons. It ends with a challenge to other social scientists to build on the theoretical formulations she offers for analysing common-pool resource problems. While Chapter 6 could benefit from further elaboration and refinement, the author's analytical approach is a useful one, which other scholars may develop more fruitfully.

One of the author's main conclusions is that current theories of collective action are of limited utility since

they do not take into account individuals' capacity to build on social capital to solve larger and more complex institutional arrangements, do not stress how the activities and policies of external political regimes can affect efforts at self-organization, and assume that complete information is freely available and that transaction costs can be ignored.

In summarizing her findings, Ostrom has also taken pains to clearly identify those variables that must be taken into consideration when explaining how some communities of individuals overcome, and others do not overcome, the problems associated with establishing stable self-governing institutions. Among the variables that the author singles out as bearing on the initial likelihood of self-organization are: the number of individuals making use of the common-pool resource, the size and structure of the common-pool resource, the temporal and spatial variability of resource units produced by the resource system, current conditions of the common-pool resource, market conditions and arrangements, the amount and type of conflict that has existed over common-pool resource use, the availability of data on current conditions and historical appropriations strategies, the rules in use regarding common-pool resource use, the nature of proposed rules governing resource use, the degree of heterogeneity of interests, the community's autonomy to change rules, and the technology available to use and restrict the use of the common-pool resource. Along these lines, for instance, she notes that the likelihood that individuals in a remote location under a political regime that is basically indifferent to what happens with regard to common-pool resources will adopt new common-pool resource use rules to improve joint welfare is positively related to the following characteristics,

1. Most [common-pool resource] appropriators share a common judgement that they will be harmed if they do not adopt an alternative rule.
2. Most appropriators will be affected in similar ways by the proposed rule changes.
3. Most appropriators highly value the continuation activities from CPR, that is, they have low discount rates.
4. Appropriators face relatively low information, transformation, and enforcement costs.

5. Most appropriators share generalized norms of reciprocity and trust that can be used as initial social capital.

6. The group appropriating from the CPR is relatively small and stable. (p. 211)

Given that the margin for errors in decisions that can inflict irreversible changes for the resource base is diminishing, and given that neither state nor market solutions to common-pool resource problems have been uniformly successful, there is a genuine need to learn more about how common-pool resource use schemes can be organized to avoid both excessive consumption and administrative cost. Ostrom's detailed review and discussion on the rules communities adopt to cope with common-pool resource problems and of the related problems of implementation and enforcement should be of particular interest in this respect. On the whole, this book is well-written, in a terse, jargon-free prose, and it provides a good beginning for future studies bearing on this issue.

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***Industrial Policy.* By A.M. Khusro, et. al.** New Delhi: Vikas Publishing House P. Ltd., 1990. Pp. 106.

This slim but very useful book is based on a panel discussion organized by the Institute of Economic Growth in New Delhi on the 31 May 1990 industrial policy measures announced by the Indian Government. These concerned the promotion of small-scale agro-based industries, and changes in procedures for industrial approvals.

The measures relating to the small-scale sector consisted of raising the exemption limit (that is the level beyond which a firm is not considered small-scale and thus not eligible for the relevant benefits), locational subsidies, enlargement of the items reserved for production in the small-scale sector, technological modernization, provision of credit, and assistance for marketing and for development of business skills. These represent a mixture of

protectionist and developmental measures. The consensus among the panellists was that the mix needed to be shifted decisively in favour of the developmental measures such as assistance in achieving economies of scale in design, marketing, and research and development; and provision of appropriate infrastructure. Several panellists such as Dhar and Krishnamurthy felt that the 31 May measures do not alter the mix sufficiently in favour of the developmental measures. Some panellists (for example Desai) emphasized a need to graduate firms from small to medium scale categories; and to combine easy entry policies with appropriate exit policies. Desai (p. 77) also makes an important point that various rules and regulations of the government need to be made more user friendly, and made easily available throughout the country to reduce search and information costs.

In the area of agro-based industries, the measures were aimed at integrating the producers of the raw materials with the setting up of the processing industries.

Measures concerning the industrial approvals were aimed at increasing the freedom of those in the business sector to make their own investment decisions based essentially on commercial considerations. The procedural changes involved exemption from licensing for small and medium sized projects. Thus, all units up to an investment limit of Rs. 750 million (US\$1 equals Rs. 26) in backward areas and Rs. 250 million in the non-backward areas were exempted from licensing. For foreign investment, for those projects where the import component of the capital goods is below 30 per cent of the total value of the plant and machinery required for the unit, licensing was eliminated.

The above measures represent a continuation of the deregulation and liberalization process followed by successive governments since the late 1970s. As Khusro (pp. 16-17) argues, these were in response to certain economic and socio-political developments in India and abroad and, therefore, were not much affected by which party was in power. Several panellists (e.g. Chelliah, Rao) emphasized the need for thorough going reforms rather than piecemeal ad hoc measures as announced in the 31 May 1990 package. Isher Ahluwalia makes an important point that it is not just employment, but productive

employment and improvements in factor productivity that ought to be the objectives of industrial policies, and that these aspects should not be ignored in the debate on small versus large scale industries (pp. 61–62). Siddharthan argues that microelectronics and bio-technology revolutions currently under way should be harnessed to help develop the small-scale industries; and that science and technology policy should be integrated with industrial policy (pp. 80–84). Kabra is concerned that the conventional mode of international investments and technology transfer tend to perpetuate unequal relationships between those who sell and those who purchase it (p. 37). How to overcome technological dependence is a problem faced by many countries, not all of which are in the low and middle income categories.

In July 1991, the newly-elected government announced a comprehensive industrial policy which has significantly accelerated the pace of deregulation and liberalization compared to the 31 May 1990 measures (*The Economic Times*, Bombay, 25 July 1991). Under the July 1991 policy, no licensing is required for all but 18 industries. The asset limit on the size of the firm or business groups has been removed. Instead, the focus is now on the monopolistic and restrictive trade practices. The policy aims to promote competition, scale economies and international competitiveness of the Indian economy. Towards this end, foreign companies may now own majority equity. The procedures for investments by domestic and foreign companies have been simplified and made more transparent and less discretionary. While certain protectionist measures, such as reservation of items, continue, for the small-scale sector, the developmental aspects, particularly technology upgrading and design and marketing assistance have received greater emphasis in the new industrial policy.

In spite of the announcement of a new industrial policy in July 1991, the book remains quite useful for several reasons. First it sets high professional standards of economic analysis which other forums and bodies in India could attempt to emulate. Second, the book can be regarded as a case study in how economists from research institutions, universities, and government are attempting to arrive at a consensus on a more appropriate set of reforms for

the 1990s. In this connection, Chelliah's call to redefine the concept of self-reliance, particularly the means by which this is to be achieved, is quite timely (pp. 31–32). In a large, diverse, and democratic country such as India, this process of consensus seeking through dialogue is obviously quite important. There now exists a consensus in India that the role of international trade and international linkages should be enhanced. The debate is about the most efficient means of bringing this about, and the trade-offs involved. Third, many of the points raised in the book by the panellists and others (for example, the need for public sector reform, and the importance of sound macroeconomic framework) have been addressed by the government elected in June 1991.

In my view, the panellists and discussants could have given greater emphasis to the following. The first is the need to adopt more co-operative and less antagonistic attitudes towards each other by workers, management and government. Second, the need to alter labour as well as management practices and philosophies prevalent in large segments of the Indian industry. The third is the need for re-orienting education towards technical education. The fourth is the need to increase economic literacy, particularly the role of transaction and information costs and the resulting importance of the administrative constraint in the design of economic policies.

There are two suggestions to make future volumes more user friendly. First, a short introduction on the nature and operations of industrial policy in India; and a statistical appendix on the industrial sector (number of firms, employment, value added by sector, etc.) would have greatly assisted the non-specialists and foreign audiences in following the discussion. This would make the book more self-contained. Second, there is a need for better editing of the book.

The above points notwithstanding, the book is a valuable addition to the literature on Indian economic policy in general, and industrial policy in particular. It is hoped that other panel discussions on important areas will be organized by the Institute of Economic Growth, and the resulting publication will be more user friendly.

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