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***Economic Stabilization in Developing Countries.***

**By Richard N. Cooper.** San Francisco: ICS Press, 1991.

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There is relatively little literature, except for specific country studies, on the issue of stabilization policies in less developed countries (LDC). Existing work on the topic is also confusing for several reasons. Firstly, "stabilization policy" may mean different things. On the one hand we have the traditional stabilization problem of smoothening out fluctuations in economic activity. Here the issue is basically whether the traditional instruments for such policy are effective in a LDC context. On the other hand, however, and this is what Cooper's work goes into, we have the more fundamental problem of what to do when the resource allocation has been seriously distorted by, for example an exogenous shock, or by inappropriate domestic policy. Secondly, stabilization policy, being such an important practical question, has tended to encourage the formation of "schools" which are very different in character and hard to compare. Thirdly, the stabilization issue has not quite reached the textbook stage yet, which of course is a reason why there is no hard-core mainstream approach so far. Against this background and considering the fact that the world economy was subject to an unusual number of exogenous shocks during the 1970s and early 1980s, the book is timely and highly interesting.

The first part of the book deals with the reactions of eighteen developing countries (representing 60 per cent of the total gross domestic product (GDP) of all LDCs, except China) to the first oil crisis 1973-74. The approach here is descriptive and gives an excellent historical overview of the events after the first oil price hike. The drawback of such an approach is, of course, the difficulties for the reader to grapple with the details and still retain an overall impression.

As it turned out, most, although not all, countries resorted to increasing external borrowing in the wake of the first oil shock. As shown by Cooper, much of the borrowing was not directly a consequence of the higher oil price but of

ambitious development programmes embarked upon in the generally optimistic spirit of the 1960s. Borrowing was facilitated, however, by the large excess funds accumulating in the Organization for Petroleum Exporting Countries (OPEC) countries with their limited absorption capacity, and much of it was from commercial banks with a floating rate of interest. As noted by Cooper, borrowing was not unreasonable at the time, given that the oil price increase was not necessarily permanent. With the benefit of hindsight it is not, of course, too difficult to show how the seeds of the subsequent debt crisis were laid in the mid-1970s.

The fatal blow came only with the second oil shock, 1978-81, more gradual but larger than the first one. The shock was followed by a tightening monetary policy in the United States and other countries which caused the interest rates to skyrocket. The combination of high oil prices, high interest rates and a world-wide recession produced the disaster known as the debt crisis. The case used for a theory-based discussion in Cooper's book is precisely what happened in the sample of eighteen countries after the onset of the crisis. The role of the International Monetary Fund (IMF) is also discussed and, by and large, defended.

The core problem with adjustment to large external negative shocks like an oil price hike is the necessity to cut down domestic absorption and restructure the economy towards production of more tradables, preferably with as little loss of production and employment as possible. The possibilities to cope with that problem depend to a great extent on whether external financing of the current account deficit can easily be obtained or not. This in turn has a good deal to do with the amount of debt the country has already.

The eighteen countries in the study coped with the external shocks in the 1970s and early 1980s with widely differing success. This takes the discussion towards the much debated question of why some countries, especially some Asian ones, seem to be so much more successful than others. Cooper finds that the traditional explanations, such as degree of protectionism and authoritarianism of government, do not seem to explain the

differences. Instead, the extent the countries had to reduce their absorption, the behaviour of the real exchange rate and fiscal discipline appear to be the key factors. We may note, however, that these results are for the short run and are not necessarily sufficient for explaining the *long run* differences in growth rates. (Besides, the three latter variables are not likely to be independent of the "traditional" explanations.) Cooper addresses the long run, too, but the from a somewhat different point of view in that he observes possible relations between growth and inflation. This is, of course, the more traditional interpretation of the term, "stabilization", which is not really what the rest of the book is all about.

The author wraps up by summarizing possible lessons to be learnt from the experiences of the eighteen countries in the study: Firstly, it appears highly desirable to maintain a stable real rate of exchange. This should preferably be taken care of without resorting to large devaluations which may have several undesirable consequences. Secondly, large international shocks are very difficult to handle without external assistance. In the absence of such assistance governments are forced to cut down absorption suddenly and heavily, which reduces the possibility of a sensible restructuring of the economy. Thirdly, flexibility and adaptability are emphasized, characteristics perhaps easier to point out than to bring about. Specific problems with *positive* shocks are also commented on. A useful technical appendix concludes the book.

All in all, Cooper's book, despite its small format and despite the fact that it does not go into every aspect of stabilization policy, is loaded with information and analysis on the stabilization (that is, adjustment) problem. It deserves to be read by everybody with an interest in macroeconomic policy in the context of developing countries.

HANS C. BLOMQUIST  
*Swedish School of Economics and  
Business Administration  
Helsinki, Finland*

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***Nusa Tenggara Timur: The Challenges of Development.*** Political and Social Change Monograph No. 12. Edited by Colin Barlow, Alex Bellis and Kate Andrews. Canberra: Australian National University, Research School of Pacific Studies, Department of Political and Social Change, 1991. Pp. xix, 294. Appendix tables, bibliography, and index.

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The papers in this collection were presented at two seminars held in Canberra, Australia, and Kupang, Nusa Tenggara Timur (NTT), in September and November 1989. The participants were mostly from Australian National University (ANU), the Mercu Buana University, Jakarta, or the NTT provincial government, most of whom had worked together as a team during 1988-89 to identify key issues and propose solutions to the main socio-economic problems of NTT. This province comprises the islands of Flores, Sumba, and West Timor (but does not include East Timor), and is ranked as one of the poorest in Indonesia. A report on the team's findings and recommendations has also been issued by the sponsoring agency, AIDAB (the Australian International Development Assistance Bureau), as *International Development Issues No. 13, Development in Eastern Indonesia: The Case of Nusa Tenggara Timur*, edited by Colin Barlow, R. Gondowarsito, A.T. Birowo and S.K.W. Jayasuriya (1990).

After an introduction by Colin Barlow, and an opening address by the Governor of NTT (H. Fernandez), the book is organized into three parts. In Part 1, Barlow and Ria Gondowarsito highlight key socio-economic features and the general development potential of NTT, Kate Duggan describes the land and environment, and Lorraine Corner outlines the status of health, education, and social services. Part 2 focuses on regional development issues, with Manuwoto critiquing the top-down (Jakarta-based) planning approach, and Harun Zain providing a contrasting case study from West Sumatra, followed by six special topic chapters on livestock (Robert Ayre-Smith), forage technologies (Colin Piggan), food crops (Pellokila,