

Chinese concept of money being basically a credit by wage earners to the government. This credit should finally be redeemed by the delivery of material goods. As a matter of fact, cash was scarcely used among state agencies which were connected via a transfer settlement by state banks. Money in this case was only a standard account. Cash was mainly used among consumers and employers. This has to be taken into account when measuring the money supply. Only now it becomes clear why Peebles suggests expenditure as an important tool for estimating purchasing power. In fact, unlike Western countries, increased expenditure can reduce money supply as purchasing power is transferred from the ("active") cash economy to the ("passive") internal economy of the state. In a world of administered prices and preset output figures and money balances, income velocity becomes an important element to be taken into consideration by monetary management. As a matter of fact, changes in the velocity represent changes in money demand. However, planners are reluctant to allow velocity fluctuate freely as an increase in unspent money means purchasing power out of their control. They therefore prefer a reduction in the money stock by additional supply of goods to an increase in deposits. This practice is quite different from those adopted in other socialist countries. It explains, too, why banking reforms since the mid 1980s have not led to a more market-based monetary policy, and instead have kept direct quantitative controls in place.

The book's fifth chapter provides us with a survey of relevant literature of the past three decades. Not only does it support much of Peebles' own approaches, but it also offers the reader an almost unique and very readable access to the existing analyses. Up to this point Peebles has gathered enough facts to start an empirical test of his hypotheses against Chinese reality. He does that in a very comprehensive way which allows him to maintain his thesis that money stock (note the distinction as against money supply!) is demand driven in the sense that imbalances between availability of goods and purchasing power result in a reaction by the authorities to increase retail sales

via prices or supply. This result could very well be called the socialist version of financial repression, and is an interesting supplement to existing research.

In the book's last chapter, Peebles takes up the question of which changes have occurred over the past decade and how they may affect policy-making in the People's Republic of China. This is of particular relevance to all those who have to estimate how the government is going to deal with the present tendencies towards economic overheating and corresponding inflationary pressures. Peebles shows that reform of the financial sector has lagged behind the liberation of once tightly controlled industries and the agricultural sector. This invariably has led to an increasing inadequacy of monetary instruments *vis-à-vis* typical phenomena of market driven economy. Peebles is right in saying that "very little market discipline" existed in the banking sector. However, applying his own analytical approach, we see that there is one major explanation for this fact: although large parts of industry still belong to the state sector, they have to compete with private enterprises for manpower and funding. Market discipline is difficult to achieve under these circumstances, both in the state's industrial and financial enterprises. There is no way out except through a further careful liberalization of this large remnant of communist China's history.

China will continue to move towards the front stage of world politics and economies. In this context, Peebles' book is a meaningful contribution to our understanding of this important country's upcoming internal processes.

WOLFGANG VEIT
Deutsche Bank Research

***Authority and Academic Scribblers: The Role of Research in East Asian Policy Reform.* Edited by Sylvia Ostry. San Francisco: ICS Press, 1991.**

Think-tanks and policy-oriented economists in the academic world want to be read, especially by

decision-makers. The former aim to contribute to economic policy formulation and, when necessary, to economic reform. Underlying this book is the question whether politicians do listen to them. It compares six country case studies where changes or outright reforms in economic policy were extraordinarily successful, and one where the reform debate was led by policy-oriented economists but the implementation was greatly hindered by vested interests and the severe burden of a repressive past (the Philippines). All the countries studied belong to East Asia in a wide sense. The result is a comparative survey of the economic policy and reform debates which is authoritative and highly informative. What comes out considerably less clearly is the answer to the question found in the subtitle of the book. One essay (on Australia/New Zealand) is virtually silent on this point, and the others are uneven and hence hard to compare in their respective treatments. What comparison is possible on the basis of this book shows significant differences in the role economic policy research has played in the seven countries. Whereas in Korea it was central, although the main think-tanks were dependent on the government, in Malaysia it turns out to have been weak, and in China virtually non-existent until less than a decade ago. In the Philippines, independent economic policy research had rapidly gained influence since the mid-1980s. In Indonesia, a stable group of policy-makers had largely kept policy analysis (and indeed a lot of the information) inside the relevant ministries and a few government think-tanks, although the debate became more public towards the 1980s. A not too dissimilar evolution occurred some time earlier in Thailand. Both Indonesia and Thailand now boast independent, well-regarded think-tanks dealing with economic policy and development.

Sylvia Ostry provides a succinct overview of what she regards as the "characteristics of useful economic research": a reasonable database, in the public domain; a sound theoretical base, rigorous use of technical tools, independence and, finally, an open debate. The editor claims that during the past 30 years or so, most East Asian countries have developed economic policy research capacities that meet such standards. As the essays

sometimes cautiously note there is some doubt as to the worth of that statement, especially where information, independence and openness of debate are concerned. Dr Ostry also prescribes how policy research is to be executed so as to increase chances of being considered: clearly defining the problems faced; setting out the principal alternatives available; identifying the vested interests affected; comparing the cost effectiveness of various options; ascertaining the trade-offs among policy choices and hence providing a basis for negotiating among vested interests. This ideal prescription renders economic policy research a formidable (and costly) undertaking.

The overall conclusions of this collection come in two parts: on economic policy in East Asian countries (including Australia), and on the role of policy research in those countries. The message about economic policy is uniform and strong: shifts towards export-oriented strategies, followed by gradual reduction of lingering elements of import substitution, followed by overall reduction of protection accompanied by waves of deregulation and often privatization. Furthermore, there is an emphasis for a macroeconomic environment as predictable as possible. The latter — difficult enough by itself — has been thwarted by commodity and oil price swings in the 1970s and early 1980s, severely affecting suppliers such as Malaysia, Indonesia and Australia, and to a lesser extent, the Philippines and Thailand. Nevertheless, it is even more clear today (1992) that East Asian economies aim for stable macroeconomic policies, irrespective of their often very high growth rates, rapid structural change and considerable foreign influence on the money supply due to transfers and various forms of investment.

With respect to economic policy research, its predominant function seems to have been a relentless teaching and dissemination of how markets work in the short and long run. Another interesting point to note is that many East Asian countries continue to make development plans "to satisfy donors" (p. 3). Nowadays, the popularity of long run "visions" (a decade or sometimes up to two and a half decades ahead) with tremendously ambitious targets may present a new

challenge to policy research. How a sober, analytical look into the short and medium term requirements (internal and external) for such "visions" may contribute to sound economic policy making, is far from easy to answer.

A final, perhaps sceptical word. It is my impression that the *raison d'être* of the book is based on the success of East Asian economies. It would seem sensible to ask whether this success is due to good advice from competent economists. Still, the presumption is a little suspect. This book shows a preponderant influence from U.S. academia on the education of the researchers in Asia (indeed, Japan, let alone Europe, do not seem to figure at all in this respect); perhaps as a result, U.S. think-tanks and institutes have been deeply involved in economic policy research in the region. No doubt, the United States is an excellent source country for economic policy research, much less Japan, one would be inclined to say, and Europe perhaps somewhere in between. Oddly enough, successful economic policy making in these three OECD core areas might well be inversely related to perceived quality of domestic economic policy research.

For those interested in East Asia, and, more broadly, in successful economic policy reforms, this well-written and authoritative book is worth having.

JACQUES PELKMANS
Senior Research Fellow
Centre for European Policy Studies,
Brussels

Improving Quality of Life in Rural Areas in Asia and the Pacific: Policies and Programmes.
Tokyo: Asian Productivity Organization, 1991.

This book, which contains the proceedings of the Study Meeting on Improvement of Quality of Life in Rural Areas organized by the Asian Productivity Organization (APO) in Seoul, South Korea in April 1990, makes a useful addition to the already

rich collection of literature on rural development in the Asia-Pacific region. The main focus of the book is to analyse, by way of country illustrations and experience, as well as expert and resource papers, the issue of quality of life in the rural sector. Indeed, this issue is pertinent and appropriate, given the fact that one of the major issues prevailing in the rural sector in many Asia-Pacific countries is the relatively low standard of living, and concomitantly, quality of life.

The approach of the book is straightforward yet effective. It begins by elucidating the experience of the individual countries participating in the Meeting in terms of their prevailing quality of life, general and specific approaches and programmes aimed at enhancing it, and major constraints and problems facing these efforts. Next, it presents a series of resource papers based on either case studies or theoretical expositions of rural quality of life. A synthesis of the two parts of the book provides one with a good grasp of the nature and issues of living standards and quality of life among the rural poor in Asia-Pacific countries.

The country papers almost invariably paint a similar picture of the quality of life in the rural economy, except for the more industrialized economies of East Asia. The quality of life among the rural populace is far behind that of the urban and metropolitan population. There is much deprivation in both relative and absolute terms. It is estimated that between 350 million and 600 million people in the Asian rural sector are poor, with a considerable proportion of them living in abject poverty.

The incidence of rural poverty is markedly high where agriculture constitutes the dominant activity of the rural sector. The low land, labour and capital productivity in agriculture has negated attempts made hitherto to farm output and incomes. This, coupled with the multitude of socio-cultural and structural constraints facing the agricultural sector, have stifled many of the efforts and programmes aimed at enhancing agricultural and rural income and standard of living. Strategies including rural industrialization and rural urbanization implemented so far have also not been fully