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BOOK REVIEWS

Gustav Ranis, Sheng-Cheng Hu, Yun-Peng Chu (eds):
The Political Economy of Comparative Development in the 21st Century
Cheltenham, UK, Northampton, MA, USA: Edward Elgar Publishing, 1999, 391 pp.

The Political Economy of Comparative Development in the 21st Century is a collection of lectures presented at the conference entitled "The Economics and Political Economy of Development at the Turn of the Century: Conference in Memory of John C. H. Fei". The book was dedicated to John C. H. Fei, who contributed significantly to economic development theory, especially the analysis of labour surplus, dualistic economies and Taiwanese and Chinese economic development. Most of the essays are related to the work of Fei and discuss issues he was engaged in. The book is divided into four main parts. In the first part T. N. Srinivasan lays down the framework of analysis and summarises the most important debates in the recent literature of economic development. The second part is economics-oriented: the focus is the different possible sources of economic development such as the stable financial system, higher domestic savings or improved efficiency and technology. The third part is devoted to income distribution problems in the developing and newly industrialising countries. In the last part institutional development as a precondition to economic development is discussed.

In the first essay *As the Century Turns: Analytics, Empirics and Politics of Development* Srinivasan discusses the relationship between "new" growth theory and its neoclassical background. He argues that in new growth theories at least some of the implications of neoclassical growth are misleading. Srinivasan believes that although the recent literature on economic growth has brought new insights to the debate, neoclassical theory is still sufficient to analyse economic growth in many countries. He focuses on the institutional underpinnings of development and on contrasting market failure, market friendly and market enhancing government behaviour. Srinivasan summarises the empirical findings from the literature: the determinants of growth (including openness) and the relationship between democracy and development are discussed. The empirical analysis shows that the economic environment was not distorted through the various kinds of interventions. However, Srinivasan does not believe that empirical experience

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is conclusive on whether state interventions should go beyond being "fundamentals friendly" and take on a proactive role in furthering development.

In *The Sources of East Asian Economic Growth*, Lawrence J. Lau examines if East Asian economic growth was a result of growth in inputs or technology and efficiency improvement. Lau studies post-war empirical data on the sources of economic growth for a group of industrialised and developing countries. He uses the production function to show that technical progress is not "manna from heaven" but rather something that reflects the effects of changes in omitted or unmeasured variables on the aggregate production function, such as land or more generally the natural endowment of resources and the environment, and "investments" in what may be broadly referred to as "intangible capital". The latter cannot be explained by the growth in measured inputs and therefore it is often omitted from models. Lau tries to put his model into the context of industrialising Asian economies. He argues that technical progress was never really measured in the case of East Asia and uses empirical findings to formulate some policy implications for the East Asian countries in the years to come (pp. 66–70). First, he recommends to invest more into research and development, which is "necessary for the successful exploitation of imported technology" (p. 67). Second, he advises to invest into intangible assets, which would allow the East Asian economies to become innovators rather than mere imitators. Finally, Lau also believes it is the role of government to promote research efforts, especially in the areas of standardisation and quality assurance.

The lecture *Can Capital Fundamentalism be Revived? A General Equilibrium Approach to Growth Accounting* by Kenneth S. Lin and Hsiu-Yun Lee gives an econometric analysis of the role of physical accumulation in economic growth and development. The authors question whether policy recommendations should be based on capital fundamentalism that urges for higher investment as the best means to promote higher economic growth. Lin and Lee review three types of growth models commonly used in the growth literature (pp. 80–84). First, they present the neoclassical model of exogenous growth, where exogenous technical progress explains sustained growth in per capita output. Then a model of endogenous growth is presented: here the returns on human capital do not diminish, but have a self-perpetuating effect. Third, an intermediate-goods-based model of endogenous growth focusing on technical progress is introduced. After describing the models, Lin and Lee derive a time-series representation of their transitional dynamics and accentuate that the diverse conditions of exogenous shock imply different autoregressive moving average representation of transitional paths. In the second part of their paper the authors present the time series evidence on per capita real output growth in the East Asian countries compared with United States. Relevance of the previously presented models and time series theory is also tested. The main conclusion is that the role of physical capital as advocated by capital fundamentalism is actually not so significant and should not guide the policy advice.

Pan A. Yotopoulus's *Incomplete Currency Markets and Growth* also contributes to the economic interpretation of successful development. He argues that the latter depends on selectively overriding certain incomplete markets, or how he says "on imposing quality closure" (p. 107). There are many markets in the developing countries that do not clear at any observed prices and in some instances the markets are even non-existent. The market of foreign exchange is one of the examples and the main focus of his paper. In most of the developing countries these markets are incomplete and unregulated competition means a "bad competition" and leads to "a race for the bottom". In other words there is an intrinsic distortion, which makes developing countries systematically misallocate resources. Yotopoulus summarises this in his thesis of "the asymmetric reputation as a source of incompleteness in currency markets" (pp. 108–111), which means that in free-currency markets soft currencies are always substituted with hard currencies. Whereas hard currencies only fluctuate, soft currencies depreciate systematically. With respect to non-tradable goods, the instability caused by the depreciation of the currency leads to a strong bias towards producing tradeable goods, which are sold in hard currencies and which are not prone to the risk of depreciation. Therefore, misallocation is not a result of factor specificity, but "a bad competition" in the currency markets. According to Yotopoulus it is a "great cost to the growth and to the detriment of development" (p. 111). Yotopoulus believes that the government should control foreign exchange markets and also intervene in other sectors of the economy. In this context good governance becomes a conditional variable for success in economic development: the government is able to identify markets that require intervention, and warns for moving "back into the future with intervention" (p. 137).

In his essay *A Dual Framework to Analyze Intersectoral Relationships throughout the Development Process* Erik Thorbecke analyses the dual-dual framework within the economy with the aim to understand the causes and patterns of poverty. He contrasts the poor in rural and urban sectors: whereas the former tend to be more vulnerable to seasonality, the latter might still subsist in worse living conditions (slums of big towns) and suffer from excessive and not welfare-improving intervention to handle poverty (pp. 160 –161). He maintains that in rural areas agriculture plays a central role by creating the employment and jobs, but also indirectly through the forward linkages. Thorbecke says there is technological dualism in most developing countries: advanced technology is used by large companies in the formal sector with more skilled and organised workers, whereas small companies in the informal sector prefer to rely on self employed labour. In the second part of the paper Thorbecke describes and identifies three different phases in the evolution of the pattern of exchange. The first is an early or agrarian phase, in which traditional agriculture predominates; production and transactions are concentrated in the rural area. Agricultural production activities are independent, there is a great degree of uncertainty, information allocation is costly and asymmetric. The second is a middle development phase characterised by striking dual structures of rural and urban areas, traditional and modern technologies, etc. The relative importance of modern technology is much higher, the informal sector expands further, transactions can take monetary or non-monetary forms. Finally, the mature development phase is characterised by relatively modern industry and service activities, the relative decline of small firms, larger domestic markets, increased importance of urban production and economies of scale.

In *Changing Industrial Structure and Economic Development: Prewar Japan Revisited*, Tetsushi Sonobe and Keijiro Otsuka develop a formula for capital deepening and labour productivity and test it with empirical data from pre-war Japan. The lessons learned are put into the context of economic success in some East Asian countries. The formula decomposes the sources of growth to average capital-labour ratios in individual industries and to the shift of industrial structure. Thus it goes beyond considering only the total factor productivity growth in each industrial sector. Recent studies of growth in Japan and other advanced countries show that the contribution of the total factor productivity growth is modest, at least as far as the initial stage of development is concerned. Sonobe and Otsuka argue that capital accumulation based on the technology borrowing, and investment in imported capital equipment are important. Capital accumulation can contribute to economic growth when an adequate amount of domestic savings is mobilised. Savings in pre-war Japan and the post-war East Asian economies increased rapidly to sustain accumulation-based economic growth.

Chau-Nan Chen and Yun-Peng Chu's essay *Growth and Changes in Inequality in Labour-absorbing Economies* studies income distribution in some selected East Asian economies. With the help of empirical data, the authors analyse the effect of industrialisation and economic growth on the labour absorbing economies of East Asia. Chen and Chu argue if industrialisation continues it is likely that the wage disparities between workers and managers begin to shrink. The experience from Japan, South Korea, Taiwan, Hong Kong and Singapore poses a serious challenge to economic theory: the "unavoidable" increase of inequalities does not really hold in the first phases of industrialisation.

Irma Adelman's essay *Income Distribution and Development in Newly Industrialised Countries* explores the impacts of economic and institutional change on income distribution and poverty in a sample of newly industrialised countries. Adelman's main argument is in line with Chen and Chu's paper – the Kuznets' view on the tradeoff between growth and equality is simplistic. Adelman brings empirical proof from Asian countries to show that socio-cultural benefits can be obtained from economic growth. She argues that the development strategy is critical in terms of having a positive influence on equality as it can lead to modern-sector employment. This way the development strategy can support the poor and enable the creation of a middle class reducing power of the rich. Adelman's empirical data also show that the rate of economic growth does not affect equality in a systematic manner. What really matters is how growth has been achieved and what kind of development aims have been stressed.

The study *Changes in the Inequality and Welfare in a Developing Country Experiencing Hyperinflation* by John P. Formby and Jacob Kaliyati uses inference based methods to study welfare, inequality and poverty in Peru during the late 1980s and the early 1990s. Formby and Kaliyati present mobility matrixes and compare the changes of economic positions in the same households in times of hyperinflation and disinflation. Their survey of inference-based dominance comparisons of food expenditure suggests that the deflated consumption indices are misleading indicators of economic welfare in Peru.

The papers by Aresnio M. Balisacan, Ann O. Krueger, Frances Stewart and Meghan O'Sullivan reflect upon the role of institutions in development. All three papers reinforce the old cliché – institutional setting does matter. Balisacan examines the nature of the growth-poverty-inequality chain in the Philippines during the second half of the 1980s and first half of the 1990s. He provides estimates of national and spatial poverty during that period and evaluates the effect of growth on the poverty. His conclusion is that economic growth has not been against the poor and helped to reduce poverty. Anne O. Krueger discusses the principles of setting up the Bretton Woods institutions and the development impacts that followed. She outlines important events of economic history after the war and discusses some of the aspects that were important in shaping the Bretton Woods institutions. Last but not least the essay by Stewart and O'Sullivan attempts to find links between the democracy and development. Although there are cases when democracy is not effective to avoid conflict, it does not imply that democracy is obsolete. Stewart and O'Sullivan argue that there are undesirable forms of democracy, which in some cases have led to ethnic conflicts, wars and deteriorating living standards. They cite the cases of Uganda, Kenya and Sri Lanka to show that the interaction between development and democracy is complex; historical and cultural factors have to be explored. In some cases (especially in divided societies) a "united" government, which includes all major ethnic groups and which focuses on development, might yield better outcomes than governments with one major ethnic group.

All the essays included in *The Political Economy of Comparative Development in the 21st Century* are thought provoking but there are some issues I would like to emphasise. First, I was impressed by the courage of Chen and Chu as well as Adelman to go against orthodox economic thinking that there is a trade-off between economic growth and equality. This construct made by Kuznets is overly simplistic: the relationship between growth and equality requires much deeper engagement in studying the countries or societies concerned. Choosing economic strategy will also govern the impacts of economic growth on poverty. I agree with Adelman that an outward-oriented policy tends to reduce poverty; both in the short and long run it may decrease inequalities. The Estonian example shows that "aggressive and complete openness" can be a good strategy: it encouraged the inflow of foreign direct investments and the incorporation of Estonian industries into international business networks. It had a positive impact on efficiency and enabled higher salaries (the salaries in foreign-owned enterprises are more than two times higher than in Estonian owned companies). Second, I found the discussion by Stewart and Sullivan very challenging. Sometimes what the Western world perceives as the best for developing countries – democracy – might in the reality turn to be a catastrophe. Special approach to every country as the authors suggest is indeed a good way to avoid failures (like the ones in Uganda or Kenya). Thirdly, I appreciate very much the contribution of Lau and his arguments that if countries are to sustain economic development, investments in R&D have to be made. The government might have a positive role in providing information and establishing the necessary institutions for patenting, quality assurance and standardisation.

I warmly recommend *The Political Economy of Comparative Development in 21st Century* to everybody interested in the nature of economic development. The essays are thought provoking and intellectually challenging. They suggest answers why some countries have been successful and why others have remained laggards, an important lesson to us all.

Tanel Tang

Tangri, R.: *The Politics of Patronage in Africa: Parastatals, Privatisation, and Private Enterprise*
Oxford: James Currey Ltd, 1999, 165 pp.

Tangri offers an extensive discussion of the political factors that have determined the development of sub-Saharan African economies. The specific issues addressed include Africa's parastatals (public enterprises), the process of privatisation, the politics towards African private capital, and the relationship between African governments and foreign enterprises.

The parastatals. By this term Tangri refers to enterprises in which the state has a controlling share, but which operate on a commercial basis. In other words these are partially public enterprises. In African countries their contribution to GDP ranges from 10 to 40% and in terms of gross domestic investment they account for 20 to 50%. The public enterprises also account for 10 to 60% of employment in the formal sector.

There were several factors that conditioned the growth of public enterprises after Africa's independence. First, they were deemed indispensable according to the prevailing developmental thinking. Further, state involvement in terms of ownership and/or intervention was inherited from the colonial period of the continent. The second factor was the so-called "economic nationalism". Finally, and most importantly, public enterprises served the purposes of political patronage. Political leaders used public enterprises to guarantee their power and increase their own wealth.

This set of diverse and contradictory economic and political goals inevitably led to under-performance and inefficient management of the parastatals. Public enterprise deficits are large in nearly all African countries and have contributed to the unmanageable national debt. In Ghana, for example, the total operating deficit of public enterprises amounted to more than 3% of the GDP in the early 1980s (p. 22). In 1989 subsidies to loss-making state-owned enterprises amounted to 14% of the Zimbabwean budget (p. 23). In the mid-1980s public enterprises accounted for about 20% of the public foreign debt of sub-Saharan countries (p. 31).

Most parastatals do not have price autonomy. Africa's governments impose price control both on the materials they buy and on their final products and services. This control is the major reason behind operating loss. Moreover, investment decisions are hardly sufficient. Many investment projects were initiated without feasibility studies, or even without adequate financing. The lack of professional management, the shortage of skilled personnel, the frequent change of managers have further worsened the prospects of Africa's parastatals.

In the 1960s and 1970s there were attempts to reform public enterprises, although these initiatives were ad hoc and isolated. The serious economic problems have forced Africa's political leaders to devise somewhat more comprehensive reform plans in the 1980s, including enterprise divestiture or privatisation and commercialisation, whereby public enterprises were supposed to get exposed to market forces. Privatisation was meant to depoliticise investment decisions, reduce corruption and thus improve the business position of enterprises. Such attempts, however, were seen by some critics as detrimental in terms of certain fundamental social and political objectives. They emphasised that privatisation, for example, will lead to lay-offs, concentration of ownership and control in a few favoured groups, and increased foreign economic presence and control.

The process of privatisation. The decisive push for privatisation in Africa came from international donors led by the World Bank and the International Monetary Fund. More specifically, the provision of external funds was made contingent upon the continent's willingness to pursue economic reforms in general and the process of privatisation in particular. The pressure was obvious by the 1990s, when about two-thirds of IMF and World Bank structural adjustment loans to African governments involved reform of parastatals (p. 43).

The privatisation process in Africa, however, had to be managed with serious political and economic constraints. There were enterprise officials setting up major obstacles because they worried about their position. Labour unions raised questions about lay-offs that were likely to follow privatisation. Despite the financial and technical assistance provided by foreign donors, simple technical, informational and organisational difficulties often hindered the process.

Other impediments had an ideological or even nationalistic character. For some socialist African leaders capitalism was unacceptable. This was the case, for example, in Zimbabwe under Robert Mugabe and in Tanzania under Julius Nyerere. Furthermore, the possibility that public assets may be purchased by foreigners was deemed inimical to the national interest.

Not surprisingly, the withdrawal of parastatals was far from significant by the mid-1990s. Governments were reluctant to sell their stake especially in "strategic" enterprises, such as public utilities, mining corporations, transport enterprises, telecommunications etc. Political leaders feared that privatisation will reduce patronage opportunities and thus shake their power positions. There were many allegations of discriminatory and non-transparent privatisation transactions favouring those with political connections. The IMF and the World Bank had been aware of this process of "politicised" privatisation but little criticism was raised. The focus remained on the speed of the process. Neglecting the political issue, however, may have serious consequences in terms of "political backlash" (p. 59). That is, a process of re-negotiation or even re-nationalisation may threaten the new owners.

Private capital in Africa. During the colonial period there were several legal, financial and bureaucratic restrictions that did not allow for the emergence of African entrepreneurs. Some smaller indigenous enterprises grew only in West Africa, where foreign capital could not find commercial interest. They were engaged in crop production, transport, trading, and craftsmanship. After independence, African governments still failed to support domestic entrepreneurs or if it happened, it was in the interests of the state apparatus.

In some countries (notably in Ethiopia, Mozambique, and Tanzania) the hostility to local capital was ideological in character. Private concerns were excluded from economic areas where there were active government enterprises. In another group of countries, however, governments tried to provide some financial assistance to private entrepreneurs. In Kenya for instance, domestic firms were encouraged to compete with foreign companies; and they did so quite successfully. In the latter group of countries domestic businesses could benefit from the state sector in terms of better supplies and distribution.

Most government engagements, however, had a purely political character. A great variety of licenses and regulations were designed to favour "businessmen", who were, for example, relatives of the ruling political leaders. A substantial portion of African "private" capital is owned by state personnel. Nowhere in Africa could a powerful and independent class of entrepreneurs develop.

The deep economic crisis since the late 1970s and the poor performance of public enterprises gave impetus to programs to develop the private sector. A number of state controls over prices, interest rates, foreign exchange, etc. were removed. In Zimbabwe, for example financial institutions were required to direct 30% of their lending to local businesses. Similar measures were adopted in Nigeria, too.

These measures, however, were not conducive enough to the development and growth of the private sector. Private investment, for example, remained very low accounting for less than 5% of GDP in sub-Saharan Africa (p. 77). Africa is the only region in the world where private investment is still below public investment.

African governments and foreign enterprises. During the colonial period foreign direct investment was encouraged. Foreign capital gained substantial control in major economic sectors such as export agriculture, mining, manufacturing and services. After independence foreign presence further increased due to the active encouragement of African governments. A number of incentives were provided to foreign businesses – tax allowances, repatriation of profits, restrictions on competing imports, etc. All this led to strong foreign dominance in terms of employment and capital formation.

Soon after independence, however, the attitude towards foreign investors changed dramatically. They were considered as easy profit hunters, who transferred their revenues abroad. "International" capital was commonly accused of engaging in illegal activities, tax evasion and transfer pricing. Government intervention was required to make sure that foreign capital works for the "national interests". Then African governments attempted to take over the economic activities of non-African entrepreneurs. The most radical forms of nationalisation were experienced under the socialist governments of Tanzania and Zambia.

Nevertheless, foreign capital was not easily subordinated to Africa's political leaders. Foreign businesses provided significant financial and political favours to the ruling political factions and bureaucrats. Almost everywhere in Africa the foreign firms contributed to the campaign and donated for other political reasons.

Since the late 1980s a reorientation towards foreign investors began. The pressure came mainly from Western countries and international financial institutions. Foreign capital was considered crucial for Africa's economic viability. Almost all African governments adopted new laws to promote investment. Many countries joined the Multilateral Investment Guarantee Agency (MIGA) established by the World Bank to guarantee private investment. Uganda offered the most hospitable environment for foreign capital, especially from the late 1980s: foreign direct investment was needed for economic recovery because of the extremely low domestic savings and investment rates.

Sub-Saharan Africa has the lowest level of foreign investment, even in the Third World region. In 1998, Africa's share was 4.7% in foreign investment total of the developing countries (p. 118). To a great extent, the low figure is due to economic factors such as small domestic markets, poor physical infrastructure, underdeveloped financial services, high level of indebtedness, foreign-exchange shortages etc. However, the main reason has a political character: political instability is often cited as a major obstacle to foreign investment.

Conclusion. Tangri makes us understand that the economic problems of Africa are rooted in the political heritage. The political elite of Africa still consists of the single most powerful economic and political figures. For example Tangri points out that when an African country is mentioned, one tends to equate it with its political leader almost exclusively. Any attempt to reform African economies through privatisation and private sector development was subordinated to the political interests of those currently in power.

One may argue that until very recently the focus of the IMF and the World Bank has been somewhat misplaced. They pushed for fast privatisation, liberalisation and promotion of the private sector but failed to assess the prevalent pattern of patronage politics in sub-Saharan Africa. The IMF and the World Bank lend governments, so a substantial part of financial support was dissipated for political purposes and fights. Only since the late 1980s started the international financial institutions to emphasise democracy. Good governance, openness and transparency of bureaucratic procedures, appointments, procurements and investment decisions, free press, independent legislation and judicial bodies are now considered cornerstones in any program for economic development.

Decreasing the economic role of the state is still very important. A minimalist state is expected to reduce the struggles for power, which are so characteristic on the continent. If the government is less valuable from economic point of view, there will be less domestic pressure to distribute scarce resources for the clientele, so better developmental policies can be pursued. Political leaders will have less resource to support patronage networks, which is a precondition to lower the "endemic" state corruption.

This argument, however, has serious implications. Political influence of the powerful figures must be replaced by a distinct and economically viable "capitalist" social class. Historically it was private entrepreneurs who "governed" economic growth and development, but the African "capitalists" are still not influential enough. The IMF and the World Bank must ensure local involvement and participation in the initiated development programs and not only at the highest state level. Domestic businesses should be actively involved in the debate. Africa's governments should be more responsive to the concerns of domestic entrepreneurs and should facilitate business associations, which serve as forums for negotiations and discussion.

Svetoslav Salkin

Jiang-Ming Zhou: *Sustainable Development in Asia, America and Europe with Global Applications. A New Approach to Land Ownership*

Cheltenham, UK – Northampton, MA, USA: Edward Elgar Publishing, 2001, 518 pp.

One of the most important questions of agricultural and rural development policies is how to preserve small farmers while still improving efficiency and competitiveness of large farms. In most countries there has been a trend towards larger and fewer farms. This kind of policies has negatively affected the small and poorer farms and raised a new issue: how to tackle the negative effects of agricultural decline on social and economic life in rural areas.

Although until the mid-1990s, many governments maintained protective safety nets aimed at helping small farms, the subsidies derived from taxpayers and consumers largely went to a few large farms while markets had been distorted and budget burdens increased. The development of off-farm activities has slowed down small farmers' exits, but it decreased land mobility towards more efficient farmers. Since the mid-1990s, many governments have adopted market-oriented policies and reduced the market distorting practice of price protection and provided direct income support instead. Thus governments wish to strengthen large farms and retain small farmers in agriculture and rural areas at the same time. High urban unemployment and homelessness called the attention to the problem, but still there are no effective measures to match the mentioned two, seemingly contradictory goals.

In his book Jiang-Ming Zhou tries to solve this problem. He *proposes a new model in order to overcome the fragmented small farms obstacle perpetuated by the inefficient land holding of part time and other small farmers and to implement sustainable rural development*. This book contains concepts of general interest, but it can be especially useful for development planners, agricultural and rural development policy makers and for researchers.

Chapter 1 (Introduction) does not only present the structure of the book, but also examines the proximate sources and ultimate causes of economic growth and introduces the analytical approach to be used. The author states the tenet, according to which the cost of agricultural products fall as the size of production unit increases, does have a logical basis and has stood the test of time as there are empirical findings for high income economies. He points out that certain part-time and small farmers are not efficient enough not only in developing (low-income) countries but also in high-income economies.

Chapter 2 (Theories of Monsoon Asia Rice Economy and Variable Mixed Economies) discusses theories of free market forces and the dual economy. It argues that free market forces alone could not overcome the vicious circle of poverty and sustainable rural development, whereas various mixed economy solutions have seen varying degrees of success. The author's hypothesis is: *the fragmented small farms as the last obstacle imposed to sustainable rural development may be overcome by variable mixed economies*.

Chapter 3 (Theory of Property Rights) reviews the most relevant theoretical viewpoints:

- Incentives under private ownership and possession of public assets (property rights, ownership, possession, incentive and Pareto efficiency, technological efficiency).
- Achieving Pareto efficiency according to Coase (externalities and the Coase theorem).
- Reaching Pareto efficiency when the hypotheses of the Coase theorem are relaxed (positive transaction costs, income effects, approaches in assignment of property rights, a transaction costs approach towards the choice among private, public and corporate land ownership and Pio's puzzle).
- The evolution of property rights structures.
- Relevant concepts of private ownership (capitalist, individual and capitalistic ownership).

This chapter also contains an appendix with the comparative analysis of land consolidation methods.

Chapter 4 (The Japanese Model versus the Last Obstacle) analyses *the Japanese model* and tests the mentioned hypotheses.

Chapter 5 describes the principals of the new model and its potential application in diverse areas of the world, under both private land ownership and private possession in public ownership of land.

The main concept of the author's proposal is the *village-wide corporate ownership of physically unwithdrawable but financially salable private land shares*. Land of each household can be turned into private land shares to earn permanent remuneration. While private land shareholders still own land, the village corporation possesses land physically and can reorganise it. Private land shares can be inherited. They can also be sold – in financial terms – on the market. But shareholders cannot withdraw land physically or claim financial reimbursement from the village. (Although if the village wished, it could buy private land shares when offered, and convert them into collective land shares.) Such a corporation can also be extended to include more villages.

The proposed village agricultural corporation is *similar to a modern capital shareholding corporation* whose shareholders can earn dividends and sell shares. There are although important *differences*.

- Selling capital shares of a capital shareholding corporation can reduce the capital value of the corporation while selling land shares would not affect either the value of the land, or its productivity.
- Capital equipment can be outmoded easily, but land is always productive (as long as it is properly maintained).
- The poor management of a capital share holding corporation can lead to bankruptcy and worthless shares. Land is however scarce and the prices tend to be high and stay high. Therefore the value of land shares would not be reduced to zero and could recover even after a corporation has been bankrupt and taken over by another.

Comparative advantages of the new model can be summarised as follows:

- There is no need to collectivise private land ownership because there is no need for the village to take private land without compensation or buy it. But the merits of collectivisation would still be achieved since all fragmented small farms could now be joined and re-splitting prevented.
- The government subsidies to large-scale farms for purchasing land can be saved.
- The rational concern of losing private land can also be relieved as private landowners can earn permanent remuneration from private land shares and enjoy a back-up basic social welfare if they were to lose their employment. This would be more acceptable to part-time and old farmers than land sale.
- The village will pay dividends to private land share from productive earnings of the village itself, rather than relying on government subsidies. Hence the

system will generate income within the rural areas – an important condition of sustainable rural development.

- The additional measure of obliging members to keep some minimum land shares from transferring would protect them falling into poverty and the freedom of transferring land shares over the minimum amount would promote the market economy.
- Land lease could be organised systematically as the village could contract (lease) production land for market equally to each household on a per capita basis, labour force or competitively to professional farmers.
- The aim of land consolidation under private land ownership can be reached, but there is no need to make exchanges of the private ownership and location of spatially dispersed parcels of farms, thus avoiding a huge amount of transaction costs.

The Chinese model is in the centre of Chapters 6 and 7. Chapter 6 (The Chinese Model and the Emergence of the Last Obstacle) studies general aspects of *the Chinese model* and appearance of the last obstacle, while Chapter 7 (Overcoming the Last Obstacle in the Chinese Model) concentrates on solutions.

Chapter 8 (Other Rice-based Economies under Public Land Ownership in Monsoon Asia) tries to extend the model to other rice-based economies of Monsoon Asia.

The new model was basically developed for Monsoon Asia. As regards *the global applicability of the new model* (Chapters 9–11) the author stresses that the model might be applied (in revised forms) for preserving small farmers while still strengthening large farmers e.g. in the USA and in many other OECD – including EU – countries. The model might be adopted for the transition of collectively operated large farms in Central and Eastern European countries (CEECs) and in the Commonwealth of Independent States (CIS). In these countries the newly established individual farms are generally fragmented and small, but on the other hand, many farmers have joined their privately owned or publicly owned but privately possessed land shares for collective operation. The author gives a brief illustration of possible applications in Chapters 9–11.

Chapter 9 (*The American Model* and the Crowding Out of Small Farmers) demonstrates that in contrast to the Japanese model, in which small farmers have hampered the formation of large farmers, the American model represents another extreme: small farmers have been crowded out by large farmers.

Chapter 10 reveals that inefficient land holding by part-time and small farmers has appeared not only in the rice-based economies of Monsoon Asia, but also in the USA where corn, soybean and wheat are the major agricultural products. In order to preserve small farmers while still strengthening large farmers and also resolve the problem of inefficient land holding, Dr. Zhou proposes formation of large–small farmers mixed economy.

Chapter 11 (Applications of the New Model in the OECD, EU, CEECs, CIS and Rest of the World) then briefly demonstrates the possible applications of the new model in various forms in other parts of the world (both low and high wage economies). As regards the CEECs, the author states that *the new model would promote EU enlargement*. As announced in the Agenda 2000, the EU intends to replace market distorting price support by direct income subsidies with the long-term aim of establishing a farming sector without subsidies. However, rendering the price support and income subsidies to farmers of the new member states (from the CEECs and CIS) can become a barrier to EU enlargement, as it would create an unbearable burden on the community budget. If, however – says the author –, the new model was implemented in farms of CEECs and the CIS, then, instead of relying on EU price support or income subsidies, they would be able to stand on their own feet. The EU could instead give financial and other supports to help these farms to strengthen rural development. Moreover, they would succeed in preventing food overproduction (it may appear at a later stage, and actually has never been solved even by the EU), through converting erodible land back to forestry, grassland, lake and wetland. *In doing so, they would steadily achieve sustainable agricultural and rural development.*

This book consists of outstanding analyses and a series of original and ingenious policy proposals of general interests. By integrating land ownership into sustainable rural development, Dr. Zhou brought a refreshing new perspective to the topic. Some of the discussions have already been published, but this book gives an overall and complete picture of the author's work.

Andrea Elekes