

Chapter eight analyzes the static and dynamic effects of education on social cohesion. The model finds that centralized education leads to greater cohesion. By contrast, both decentralized and private education can lead to societal polarization if schools are heterogeneous in either their values or funding. Finally, chapter nine addresses current research deficiencies in the political economy of education literature and proposes an agenda for future research.

Overall, *The Political Economy of Education* is an organized and concise review of the literature. For any economist interested in the economics of education, this book will serve as a primer to the field.

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***Stability with Growth: Macroeconomics, Liberalization, and Development.*** JOSEPH E. STIGLITZ, JOSE ANTONIO OCAMPO, SHARI SPIEGEL, RICHARDO FRENCH-DAVIS, AND DEEPAK NAYYAR. Oxford, UK: Oxford University Press, 2006. Pp. xi, 339. \$35.00.

Shortly after leaving the World Bank where he had served as chief economist, Joseph Stiglitz formed the Initiative for Policy Dialogue (IPD) to provide a forum for discussing policy alternatives for developing countries. The core of the IPD's mission is the acknowledgement that policies involve trade-offs. One size does not necessarily fit all. The IPD advocates a heterodox approach to policy rather than forcing all developing countries to implement the same macroeconomic policies and liberalize their markets in a similar fashion as suggested by the Washington Consensus. It is in that heterodox spirit that Stiglitz, along with co-authors Jose Antonio Ocampo, Shari Spiegel, Ricardo French-Davis, and Deepak Nayyar, have written *Stability with Growth: Macroeconomics, Liberalization, and Development*. The authors admit that the book is not neutral toward the policies of the Washington Consensus. They attempt to counterbalance the substantial amount of literature on the other side of the debate.

The book explains two closely related aspects of development. Economic growth is important, but growth without stability can harm the poor. On the other hand, the wrong kind of stability, such as

pursuing low inflation, can be detrimental to growth. Unfortunately, there are neither any hard and fast rules governing the relationship between stability and growth nor are there Pareto dominant policies that unambiguously improve welfare by providing stability and growth without any trade-offs.

The target audience for this book consists of policy makers and citizens wishing to become more informed about these issues. No specialized economic knowledge is assumed, and the depth of analysis is considerably less than would be required for a book aimed at researchers. While many economists would consider the overview (Part I) to be quite superficial, it should benefit readers who are unfamiliar with the major issues at stake. Unfortunately, this overview is mostly focused on the arguments in Part II, which concern macroeconomic policy very broadly while giving scant attention to the evidence presented in Part III which specifically relates to capital market liberalization. The latter section is more technical and requires some explanation for the casual reader.

Part II of the book presents the core of the authors' arguments. They begin by presenting three policy frameworks: Keynesian, conservative, and heterodox. The Keynesian approach is familiar to economists as emphasizing real output gaps, Phillips curves, and the efficacy of fiscal and monetary policy. The conservative approach is strongly identified with the Washington Consensus and contains a strong free market bias. Finally, the heterodox approach emphasizes microeconomic policy interventions with attention to concerns such as risk and balance sheet effects. The heterodox approach combines the Keynesian affinity for policy intervention with the conservative attention to expectations and intertemporal models of decision making. The authors identify most closely with the heterodox approach.

The authors critique a variety of policy instruments from the three policy perspectives. Many of these critiques are extremely brief, although references are given in the endnotes for the interested reader. The authors pull no punches in castigating conservative theories and policies from Ricardian equivalence to supply side tax cuts. They look favorably on Keynesian and heterodox policies but they give a slight edge to the heterodox policies for greater flexibility to target the trouble spots in the economy. For example, heterodox monetary policy would not only focus on the money supply but also on bankruptcy laws and the credit channels through which interest rates affect the

distribution of income. The authors introduce many other heterodox (microeconomic) policies that are consistent with their overall message that the focus should be on country-specific policies that acknowledge the trade-offs and the particular problems facing a given country.

One policy that surfaces throughout the book is inflation targeting. First, the authors make the empirical point that moderate rates of inflation (up to 30% per year) have not been associated with slow growth. In fact, Argentina, Brazil, Chile, and Poland are examples of countries that have seen real growth rates exceed 5% per year in the presence of moderate inflation. Furthermore, attempts to bring inflation under control are nearly always attended by recession. In their view, inflation targeting is simply not worth the cost. They also point out in the chapter on open economy considerations that inflation targeting without coordination between monetary and fiscal authorities is likely to lead to an overvalued exchange rate and a growing trade imbalance. Economists will easily identify this as an application of the Mundell-Fleming model. However, the non-expert for whom the book was ostensibly written may have difficulty sorting out the two pages of prose which combine the coordination problem with the determination of equilibrium in a single discussion.

While much of their argument is quite reasonable, the authors cannot resist piling on with a few statements that are questionable. Referring to the neoclassical view that money is neutral in the long run, the authors assert that the conservatives are inconsistent in claiming that monetary policy does not affect real variables but nonetheless can have harmful effects on the economy. Thus conservative monetary policy is dismissed in two paragraphs. They fail to mention the strong possibility that inflation can have important distributional effects which can be harmful to the poor, a point made by John Williamson (2000) in response to Stiglitz's earlier critiques of the Washington Consensus. Unfortunately, the authors do not engage their critics directly on this and other questions.

Part III of the book deals with capital market liberalization (CML). This section of the work is comparatively easy to summarize. The authors contend that CML increases instability and that advocates of CML are "out of touch with both modern economic theory and the economic reality of developing countries" (p. 169). There are many reasons that CML can be destabilizing. CML tends to encourage short-term investment (hot money) rather than long-term foreign direct

investment. The footloose short-term investment confounds policy makers, particularly central bankers, because in times of crisis, capital flight leads to skyrocketing interest rates and contagion.

As an alternative, the authors propose various restrictions and interventions on capital markets. They advocate both price based regulations (taxes) and quantity based regulations (quotas on inflows and outflows). In the penultimate chapter, they conclude that “at the very best, liberalization may be a long way off” for most developing countries (p. 222).

The one-sided nature of the book will be disconcerting to some readers, and there are several instances where the authors’ failure to engage their critics is glaring. Taken as a whole, however, the book is constructive and presents alternatives to the policies they criticize. As confident as the authors are in their broad assertions, they point out repeatedly that each developing country’s situation is different. The Washington Consensus did not take those differences into account. Perhaps the next generation of policy makers will do so.

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## References

**Williamson, John.** “What Should the World Bank Think about the Washington Consensus?” *The World Bank Research Observer*, August 2000, 15 (2), pp. 251–264.

***Globalization and Egalitarian Redistribution.*** Edited by PRANAB BARDHAN, SAMUEL BOWLES, AND MICHAEL WALLERSTEIN. Princeton, NJ: Princeton University Press, 2006, Pp xii, 326, \$35.00

The book titled “Globalization and Egalitarian Redistribution” is a collection of eleven essays written by sixteen distinguished scholars in international trade and welfare economics. As its title suggests, the book provides a unique study of the impact of globalization on inequality in the distribution of incomes within and among countries. It is a pioneering and thorough treatment of redistribution of incomes as a