

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

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***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

consequence of globalization. At a deeper level, the book addresses the following questions: “Does globalization raise the costs and compromise the political validity of national policies designed to redistribute incomes to the less well off and to insure people against economic risks? If so, are there alterations in the canonical social democratic corporatists, or liberal welfare state policy packages that can address the challenges posed by globalization, effectively assisting the poor and the unlucky while securing durable electoral support?”.

The essays in this book suggest that there are no simple answers and solutions to these complex questions, however, the task of reconciling global integration and economic security and distributive justice is not insurmountable. Globalization does not preclude social insurance and egalitarian distribution; it only changes the mix of policies that can accomplish this. Globalization has helped divert funds from rich countries to poor countries thus benefitting millions while simultaneously increasing inequality in the distribution of incomes in the industrialized nations.

Traditionally the issues of poverty, inequality, and income redistribution have been studied by development economists and growth theorists within the framework of domestic policies. With the disintegration of Soviet Union, expansion of European Union (EU), European Monetary Union and introduction of Euro, rise of China as a powerhouse of manufacturing and the transition of several developing countries in Asia, Africa and Latin America from market socialism and communism towards free trade and free market economics, economists and social scientists are facing new challenges and new questions. By embracing free market economic policies and closer economic integration, countries are more exposed to the dynamics of international economic climate, which is likely to impact the domestic agenda of reduction of poverty and egalitarian incomes. This book fills this very important gap in the literature by providing a fresh look at the questions of inequality and egalitarian redistribution within the context of globalization. The essays in this volume address different aspects of the impact of globalization on economics and politics of redistributive policies using a variety of methods thus bringing international economists and welfare economists together with political and behavioral scientists.

The essay by Pranab Bardhan “Globalization and Limits to Poverty Alleviation” summarizes variety of ways in which increasing economic

integration affects the incidence of poverty in the third world countries. While opening the economy to trade and long term capital flows can constrain some policy options and eliminate jobs and entrepreneurial opportunities for small enterprise, if accompanied by appropriate domestic policies, in the long run it need not make the poor much worse off. Solution to many problems facing the poor in developing countries is not imposing more trade restrictions, but in being more selective in protecting the trade and economic activity of the indigenous people and cultural diversity. He strongly recommended the creation of a mechanism within the purview of say, World Trade Organization (WTO), supervision of international hedging and insurance against the impact of capital flow volatility. The author agrees that there is correlation between globalization and poverty but strongly disagrees with the simple causation theory. He recommends that domestic factors like the reform policies (of China and India) and forces that brought about the unstable and failed political regimes in Africa must be included while studying causation between poverty and globalization.

In “Social Protection in a Supranational Context: European Integration and the Fate of the European Social Model”, Claude Offe candidly discusses the new political order of nation states within the framework of integrated European Union. He discusses the pros and cons of integration and analyzes if new model of European Union nations will be more social capitalism or market socialism. The paper discusses several ways in which the EU integration is connected with globalization. Europe-wide integration of the markets is expected to enhance productivity through economies of scale, specialization effects and global competitiveness. However, the new model will result in partial disempowerment of national governments severely limiting their ability to use fiscal and monetary policy at their discretion. National governments will see their agenda set by the supra or transnational forces beyond their control!

In “Threat Effect of Capital Mobility on Wage bargaining”, Minsik Choi provides a new approach to assess the impact of enhanced capital mobility on wages. The author tests the hypothesis that all else being equal, a union representing workers in a firm whose affiliated industry has more outside options as represented by their stock of foreign direct investment is more likely to concede in wage bargaining and accordingly the union members will receive smaller wage premiums.

Taken together, the first three essays suggest that globalization constrains redistributive efforts in rich countries more than in poor countries. The following essay by Layna Mosley “Constraints, Opportunities and Information: Financial Market–Government Relations around the World” argues that politics is much more important in developing markets than in developed markets. The question of who governs matters in these markets. The problems experienced in the developing world are completely nonexistent in the developed world, a completely opposite conclusion to those in the earlier essays.

In “Egalitarian Redistribution in Globally Integrated Economies”, Samuel Bowles uses a general equilibrium model to demonstrate that redistributive policies remain implementable even in what may be termed as a hyper-globalized world. He cites examples of politically and economically successful egalitarianism policies of wide ranging economies from Nordic social democracies, to Costa Rican welfare state, wage compression in Singapore and of egalitarian distribution of health and nutrition in Sri Lanka. He discusses examples of two Indian States Kerala and West Bengal who have substantially redistributed incomes and land and improved the wellbeing of poor and repeatedly returned to power in democratic elections. He concludes that the general perception of opposition between globalization and egalitarianism may be overdrawn. Free flow of goods and services creates opportunities for enhancing the welfare of the poor in developing countries.

In “Between Redistribution and Trade: the Political Economy of Protectionism and Domestic Compensation“, Carles Boix compares the political coalitions in two Australian states in the late nineteenth century prior to the formation of Australian federation. His study shows that when labor is in a dominant position, generous social insurance package can be made a precondition of free trade policies. Public spending can be the quid pro quo of free trade.

The last four essays explore the implications of globalization from the stand point of political economy. In “Social Democracy as a Developmental Strategy”, Karl Ove Moene and Michael Wallerstein offer an agnostic view of the feasibility of the social democratic model of development in the Third World. They argue that consensus, homogeneity and affluence are the products of social democracy and not the prerequisites as many currently believe. Their model, using

Nash bargaining solution, shows that the wage compression (reducing wage differential between modern and traditional sector) is a key policy variable that can greatly benefit social democracy in South Africa, India and Brazil.

In “Globalization and Democracy”, Adam Przewoski and Covadonga Meseguer Yerba use the Median Voter Model to study differences among politically sovereign states. They conclude that net impact of globalization on policy convergence is indeterminate in theory and unclear in terms of empirical evidence. The general discontent with globalization primarily occurs because none of the feasible choices provide full compensation for victims of globalization.

In “Economic Integration, Cultural Standardization and the Politics of Social Insurance”, Samuel Bowles and Ugo Pagano argue that globalization involves a process of standardization of language and cultures. The authors hypothesize that globalization may create a political cleavage between ‘cosmopolitans’ who possess adaptable skills to global demands and ‘provincials’ who are less mobile and may ultimately lead to policies that might expose many to the insecurity of the global markets.

Kenneth Scheve and Mathew J. Slaughter in “Public Opinion, International Economic Integration and the Welfare State” conclude that substantial social insurance and redistributive policies are inconsistent with economic globalization because it appears that political support for liberalism itself depends in part on those very policies. The economic gains from free trade policies will be irrelevant if there is no political will to compensate the losers for their losses with appropriate redistributive policies.

Immigration is a potentially explosive issue in Europe and in United States. In “Immigration and Redistribution in a Global Era”, Stuart Soroka, Keith Banting, and Richard Johnson investigate the impact of immigration on social insurance expenditure. Their study shows a clear negative relationship between immigration and decrease in social expenditure in many industrialized nations during 1965-2000. While the countries need cheap immigrant labor from Romania and Mexico, the increased burden and costs to the social welfare programs undermines support for immigration.

This book, with its detailed study of the various economic, social, political and behavioral dimensions of the ongoing process of globalization will be an indispensable reading for scholars of open

economy macro policies, globalization, and poverty and income redistribution in democratic societies. It demonstrates that globalization is not an inexorable process, but a consequence of policy choices that can be reversed. The current policy decisions by Hugo Chavez in Venezuela may be perfect examples of this! Whether the process of globalization continues or whether it is reversed may depend on governments' success in redistributing income and providing protection against the risk inherent in specialized production for global markets.

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***Prospects for Monetary Unions after the Euro.*** PAUL DE GRAUWE AND JACQUES MELITZ (Editors). Cambridge, MA: The MIT Press, 2005. Pp. ix, 358. \$45.00.

Despite much skepticism among economists, the European Union (EU) created the European Monetary Union (EMU) with a single currency, euro, on January 1, 1999. Greece joined the monetary union in January 2001. Euro banknotes and coins entered circulation on January 1, 2002. Thus, the eurozone was created. After this book was published, Slovenia joined the eurozone in 2007 (Origins of the Euro, 2007). Thus, as of June 2007, 13 member countries of 27 EU member countries are in the eurozone. Euro is now the only official currency in these 13 economies, and the European Central Bank (ECB) conducts their monetary policies.

This conference book contains 12 chapters written by 20 renowned economists. Throughout the book, authors discuss major economic issues in relation with the EMU. In the first chapter, De Grauwe and Melitz briefly describe the book by introducing topics of each chapter. Discussions in the next 11 chapters primarily emphasize the effects of monetary union on the inflation rate, labor market, structural changes, trades among member countries, economic growth, and risk sharing among members.

From Chapter 2 to Chapter 6, the authors discuss various impacts of enlargement of the eurozone into Central European countries. In "The Eastward Enlargement of the European Monetary Union",