Literatur

Public Finance and Development

By

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Development requires raising and allocating resources and good economic policies. Whether government actually invests or not, its policies are central. And the central place in which governmental policies find their expression is the budget. One need not put the matter as dramatically as Schumpeter who heard the thunder of history in the numbers of the budget, but Germans and Americans struggling with the size and details of budgetary receipts and expenditures will sympathize with the problems of developing countries which Wolfson competently discusses.

The book is a rounded treatment of what governments can do in the manner of taxing or spending to achieve their ends. There is no point in a short review to go into too many details. Wolfson takes the reader first through public spending, then through resource mobilization, without, however, forgetting at any time that all problems are interdependent.

The reader is thus taken through “The Budget as a Tool of Development” (pp. 3–34) which deals, inter alia, with public goods and Musgravian “merit” wants (which may all too frequently become “privilege” goods); full employment policy in a macroeconomic framework; and the relationship of politics to economics. Each subject receives a balanced treatment though some readers (not this reviewer) may find words like “kleptocracy” too loaded for their taste. “Spending for Performance and Growth” (pp. 35–51), “Spending and Income Distribution” (pp. 52–81), and “Spending and Stabilization” (pp. 82–94) are next, followed by “Administrative Action and Public Spending” (pp. 95–120). The space devoted to each subject is a measure of Wolfson’s realistic assessment where the biggest difficulties lie.

Disagreements with Wolfson refer less to the technical analyses, than to assessments of the personal and institutional constraints within which policy is made. To give two examples:

(i) “Growth per se may be a useful short-run device for economic improvement, but in the long run it may lead to political imbalance” (p. 37). True. But is it conceivable to think of growth without such imbalances? Do not people who complain about “growth without development” worry just
about the absence of structural changes? Do not the developments in the communist world — Poland now, Hungary earlier, some de-Stalinization in Russia — suggest that these imbalances do not arise or that we have "balanced growth", but that the different regimes can adjust with different effectiveness to these imbalances? Wolfson of course knows all this and is surely right when he says that "goals [are] not only my ideological predilections but also my pragmatic conviction that the political leadership in countries that lag behind in development can only escape chaos by opting for sustained social and economic change" (p. 48).

(ii) "In the struggle for political independence in the developing parts of the world, the substitution of psychological income for real economic resources has proven to be a powerful weapon in the hands of charismatic leaders as — to name an odd couple — Nasser and Ben-Gurion" (p. 76). Later Wolfson also mentions Mao, Mothers of the Revolution in the USSR, Kibbutz and Ujamaa. Yet the effectiveness of Nasser's policies is questionable; and other "charismatic" leaders like Nkrumah so dear to some intellectuals have ruined the economies of their countries which gave every promise of a bright future at the time of their independence. The point is that I seriously doubt anyone preferred "psychic" income except the leading group which made sure that it got also some "real" income, and that what mattered was not the charisma of the leader but the actual policies pursued. I also suspect that "State Research Bureaus", that euphemism for secret police and terror, had more to do with keeping the charismatic leader in power than his charisma. Would Wolfson disagree? Of course not. His suggestion to improve income distribution by spending include "improved education and... careful consideration of factor combinations, particularly in agriculture", the correction of market imperfections — many of which are themselves due to faulty government policies — improving economic opportunities and "optimizing the population structure". Thus, with these "caveats specified, the marginal productivity theory emerges as the best guide" (p. 81).

I fully agree with Wolfson that inflation simply does not work any positive results in LDCs and that Keynesian stabilization policies are largely irrelevant in LDCs.

Under "Administrative Action and Public Spending", Wolfson discusses questions of centralization and decentralization, the shape of the budget, politics and the budget, but also project analysis and the problems of shadow pricing. "Consistency requires that all the aims of government in various fields in which it exercises financial control be reconciled by a single agent, the minister of finance" (p. 99). I agree, yet many economists would prefer the planners to exercise this function.

Wolfson's comments on shadow pricing are rather brief, and I have stated my views in detail elsewhere, "shadow prices are a poor short-run substitute for a fiscal policy aimed at reducing market imperfections and maintaining a realistic exchange rate" (p. 114). I would go even further stating somewhat apodictically, that unless shadow prices, reasonably and accurately worked out, are translated into real prices by wage and price policies rather than by