

I Health, Education, and Welfare

Coping with austerity: Poverty and inequality in Latin America. Edited by NORA LUSTIG. Washington, D.C.: Brookings Institution, 1995. Pp. xviii, 460. \$39.95, cloth; \$18.95, paper. ISBN 0-8157-5318-7, cloth; 0-8157-5317-9, pbk. JEL 96-0151

Arguably, the crucial policy problem in times of fiscal consolidation is the impact of deficit-cutting measures on income distribution and poverty. This collection of essays moves us closer to an answer by providing an accurate description of the evolution of social expenditure in Latin America in the 1970s and 1980s. In this respect, this volume sets itself apart from many other contributions, where the borders between ideology and facts are blurred at best.

The book is also different from most of the other literature in that it takes a constructive approach and explicitly recognizes the constraints imposed by the unsustainable fiscal and external imbalances of the 1970s. Consequently, the need for an adjustment is taken as given and the key question being asked is not "was it necessary?," but rather "could it be done better?," which in practice means "less painfully?"

The book is in two parts. The first contains five chapters (including an informative introduction by the editor, Nora Lustig) that deal with general issues. The second part contains six case studies of Argentina, Brazil, Chile, Mexico, Peru, and Venezuela.

Among the first five chapters, of particular interest is the one by Margaret Grosh. In the first part, the author evaluates different social programs according to five criteria (including political and administrative feasibility and targeting). In the second part, she illustrates her approach with a description of the policy process in Bolivia in 1986 and Jamaica in 1988, each leading to the choice of a specific program and the exclusion of other candidates. The whole chapter is a healthy reminder of the reality of policy making in an environment where political, resource, and time constraints are binding all the time and a full-fledged cost/benefit analysis is simply impossible to carry out.

One welcome feature of the six case studies

is that they all share a similar structure: after an analysis of the evolution of poverty, income distribution and macroeconomic factors in the 1970s and 1980s in each country, each describes the evolution of social expenditure, and relates the latter to income distribution. Intentionally, none of the case studies relies on computable general equilibrium models to estimate the likely impact of fiscal policy on income distribution. Rather, the emphasis is on a systematic description of what actually happened to the various components and programs of social policy during the adjustment. Strange as it might seem, this fundamental preliminary step toward our understanding of the likely effects of the adjustment was largely missing in the literature.

Not only the structure, but also the quality of all the case studies is similar, and remarkably high. The most successful chapters are probably those that—like the ones on Argentina (by Luis Beccaria and Ricardo Carciofi) and on Chile (by Dagmar Raczynski and Pilar Romaguera)—strive to give as complete a picture as possible of all components of social expenditure. This is not just a question of details versus a broad picture, because many types of government expenditure are very good substitutes for each other from the standpoint of their redistributive impact. Consequently, one cannot judge the redistributive stance of fiscal policy without a complete picture of social expenditure. In this regard, one problem of the case studies is that they rely on different definitions of social policy and, moreover, the definition is not always explicit. For instance, in some cases the reader discovers after a while that pensions are not included in the definition; in other cases, the definition of social expenditure for a given country changes over time.

An encompassing view of social expenditure also allows a more complete treatment of an issue which is becoming more and more important in fiscal adjustments around the world: the scope and effectiveness of targeting. The theoretical objections to targeting as a source of distortions of individual decisions are well known. Yet, one key lesson of the book is that, in practice, targeting is inescapable if the goal is to minimize the social costs of consolidations and maximize their political

and administrative feasibility. For instance, whatever one thinks about the Chilean adjustment of the 1970s and 1980s, it is clear that its social consequences would have been much worse if the government had not engaged in widespread targeting of redistribution.

For all its achievements, the book still shares one important problem with most of the existing related literature. The editor is adamant in the introduction in warning the reader about the pitfalls of the use of the poverty line, and she has to be commended for this. But in the case studies some key problems remain. I will focus on one of them: the extremely and, often, implausibly large changes in the poverty head count. In some cases, the reason is probably that the estimate of the poverty line is based on the price of food, and mostly ignores the price of non-traded goods. When the real exchange rate depreciates, as it is often the case in times of fiscal adjustments, the relative price of non-traded goods falls, but this is not always taken into account in the estimation of the poverty line. In other instances the reason is, I believe, more mundane. For instance, the book reports an increase in the percentage of "indigent individuals" in Chile between 1970 and 1983 from 6 to 30.3 percent, a more than 500 percent increase! In a comparable period, 1969 to 1980, the book also reports an increase for Greater Santiago (with more than half the whole population of Chile) from 8.4 to 14.4 percent, only about a 75 percent increase. It takes some attention on the part of the reader to realize that the first, implausible increase is obtained by comparing two different sources with no guarantee whatsoever that they are indeed comparable. By contrast, the second, more credible increase is obtained from the same source, and in fact the same publication. Clearly, the two sets of figures would warrant very difficult inferences on the effects of the fiscal adjustment.

Still, these quibbles should not detract from the great merits of this book, which is essential reading for anybody seriously interested in understanding the role and effects of fiscal policy during the Latin American adjustment.

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J Labor and Demographic Economics

Competition and cooperation in Japanese labour markets. By CARL MOSK. *Studies in the Modern Japanese Economy.* New York: St. Martin's Press; London: Macmillan Press, 1995. Pp. xviii, 290. \$69.95. ISBN 0-312-12683-2.

JEL 96-0627

The emergence of Japan as an industrial superpower has been attended by the growth of a large literature examining the possible explanations for Japan's sustained economic success from the 1950s to the 1980s. Much of this literature emphasizes the role of political and economic institutions and the manner in which they may affect economic performance. Mosk's thesis is that while segmentation in the Japanese labor market has acted to enhance competitiveness, Japanese wage-setting institutions have promoted income equality and fostered high levels of cooperative behavior. The author refers to this as "integrated segmentation." The thesis itself may not be original, but this is one of the more detailed accounts of the historical development of Japanese labor, and Mosk draws a convincing portrait of a stratified labor market. The book is, however, fraught with analytical problems.

The author begins by setting out a framework delineating three sectors within the Japanese labor market: large firms, small firms, and family-run enterprises. Each of these sectors is modeled independently. Unfortunately, there is no formal expression of how the three sectors are linked and this creates problems for a book concerned largely with the relationships among them. The central concept of "integrated-segmentation" lacks clarity, and at times the author's analysis of the interaction of the markets is unfocused.

The historical account begins with a chapter on the prewar period showing how late development in a labor surplus economy led to a pattern of unbalanced growth and the emergence of a dual structure in manufacturing. For the most part, the chapter is a reasonable synthesis of the existing literature on the development of the Japanese labor market up to World War II. Detailed attention is given to the role of the meritocratic educa-

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