

ANNE O. KRUEGER, *Economic Policies at Cross-Purposes: The United States and Developing Countries*. Washington, DC: The Brookings Institution, 1993. viii + 253 pp., index, \$36.95.

This is an excellent book for those interested in the successes and failures of U.S. foreign economic policies since the end of World War II and recommendations for improving these policies in the future. Its primary focus is on U.S. foreign aid, trade, and debt policies toward the developing countries and the numerous problems that have been experienced and the inconsistencies that have characterized the mix of these policies especially since the 1980s.

In an introductory chapter that sets the background, Krueger points out that the developing countries account currently for about one-third of U.S. merchandise exports and imports. At the same time, though, she notes that these countries today are obviously much more diverse than they were in the early postwar period. In her second chapter, she observes that following World War II, U.S. foreign economic assistance was focused to a large extent on Western Europe via the Marshall Plan especially. Once reconstruction and recovery in Western Europe were more or less completed, U.S. foreign aid became concentrated on the developing countries. The motivations for U.S. aid to the developing countries were both humanitarian and political. That is, there was a desire to use aid to enhance development in the world's low-income countries as an end in itself. At the same time, because of the adversarial relationship between the United States and the Soviet Union that marked the Cold War, aid was increasingly designed to promote U.S. foreign policy and military objectives in countries and regions that were deemed strategic to U.S. interests. It is of note that issues of international trade, finance, and investment were at that time mainly a province of the developed countries.

Krueger moves on to discuss the panoply of development policies, most of which involved import substitution, that many developing countries adopted in the early postwar period. She notes the widespread failures of these inward-looking policies as manifested in the slowing down of growth that occurred. At the same time, there were startling contrasts with the growth experiences of the East Asian Newly Industrializing Countries (NICs) that had shifted direction and adopted outward-oriented policies. Three in-

terrelated lessons of U.S. foreign aid policies seem to stand out here. The first is that project aid that was designed to supplement domestic savings and contribute to capital formation frequently did not have the intended effect in countries that were pursuing inward-looking policies. The second lesson is a qualification of the first one. That is, in cases where aid transfers were substantial, as was true for South Korea and Taiwan, where there was accompanying technical assistance and productivity-enhancing spillover effects to the private sector, and where government policies were designed to promote efficient resource allocation and exports, U.S. aid played a positive and highly significant role indeed. The third lesson derives from lesson two, namely that access to international markets has been crucial to the success of the NICs.

By the 1960s and 1970s, there were clear signs of aid fatigue in the U.S. aid programs. It had become increasingly evident that, in many countries, aid transfers were not having the desired effect of encouraging efficient capital formation and increasing real per capita incomes. What U.S. aid policy lacked during this period was a mandate that would permit provision of aid not only for particular projects but also aid that fit in with the macroeconomic needs of the recipient countries and that involved performance standards designed to ensure effective use. In the absence of such a mandate, it was difficult to sustain aid appropriations, and increasingly detailed restrictions were imposed on the use of the aid that was made available. As a consequence, much of the aid activity shifted away from the official U.S. aid establishment to other U.S. agencies and to multilateral institutions, especially the World Bank and International Monetary Fund.

Krueger provides an informative review of the policies and practices of the Bank and Fund and notes that, prior to the 1980s, the United States had been a strong proponent of these institutions. Since the 1980s, however, the U.S. Executive and the Congress have frequently been critical of and confrontational toward the multilateral institutions. This reflected in part the aforementioned disenchantment with foreign aid, but perhaps more important was the ideological view that Bank and Fund programs and operations were often inimical to private sector incentives and interests. Furthermore, in a climate of increasing U.S. federal budget deficits, there was resistance to providing additional aid. The upshot was that the role and influence of the United States in decision making in the multilateral institutions became tarnished and ineffectual at a time when these institutions were becoming increasingly important as a source of development financing and insistence on conditions designed to ensure effective adjustment policies in recipient countries. Krueger uses the debt crisis to illustrate how reactive and confrontational U.S. policy had become with respect to the Bank and Fund.

Krueger notes that U.S. aid and trade policies have been motivated by different concerns, with trade policies focused mainly on other developed

countries and catering increasingly to domestic protectionist pressures. She provides a succinct review of the main features of U.S. global trade policies as well as policies toward the developing countries, including discussions of the Uruguay Round negotiating issues and preferential arrangements and calling attention to the increasing U.S. use of bilateral policy instruments and pressures. Like other U.S. policies, she finds that trade policies toward developing countries have often schizophrenic qualities. She uses the experiences of the Caribbean Basin Initiative (CBI) and U.S. policies toward Korea to illustrate the interaction of U.S. policies and how self-defeating bilateral policies may be. She argues that the value of the CBI preferences is questionable due especially to restrictions involving CBI oil and sugar exports and limitations on certain exports of manufactured goods. In the case of Korea, which was one of the real success stories of the U.S. aid program, she is critical of the U.S. pressures during the latter part of the 1980s to bring about the appreciation of the won and to compel the opening of the Korean market to U.S. exports of goods and services. She notes that the many inconsistencies in U.S. policy-making also characterize relations with other developing countries.

There is an evident need, then, for reform. With respect to foreign aid, Krueger urges that aid be recognized as having different objectives, and that a consensus is required on what these objectives can or should be. Rather than reorganize the existing decision-making aid structure, she emphasizes the need to improve this structure. She recommends in particular setting up separate bureaus within USAID to deal with issues of economic reform, basic human needs, and providing international assistance to developing countries. With respect to trade policy, she stresses the need for clarification of trade policy as foreign policy rather than its being driven by special domestic interest groups. She makes a strong case for multilateral policy as the best policy for the United States, although she does not rule out bilateral initiatives if they are properly designed to achieve multilateral objectives. In particular, she urges that the United States take steps to strengthen the GATT and conclude the Uruguay Round negotiations, eliminate quota-like arrangements as in the cases of apparel and agricultural products that are detrimental to developing countries, and reduce the harassing qualities of the U.S. antidumping and countervailing duty laws. Finally, she urges that there be a centralization within the U.S. Government of policies and positions vis-à-vis the multilateral institutions that would make more effective use of these institutions and provide greater U.S. support of their activities.

Clearly, this is a large agenda for change that requires careful thought and consideration in forging a consensus on how best to deal with the problems of developing countries in ways that will best serve U.S. and global interests and concerns. With the evident shifts now occurring in favor of domestic policy liberalization and outward orientation and the accompanying surges

of economic growth in many developing countries, there is reason to believe that these countries will become increasingly important in the world economy. Krueger's book is invaluable because of its insights into the historical details of U.S. policies toward the developing countries and the recommendations that she offers on how these policies can be made more consistent and effective in the future.

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