

vidence in general supports the superiority of aggregation theoretic Divisia monetary aggregates, they do not seem to outperform their simple sum counterparts, indicating that it is difficult to do away with the practice of traditional monetary aggregates by the central banks.

One of the conditions laid down by the microeconomic theory of monetary aggregation is to choose an array of weakly separable monetary assets. This volume, however, has missed out covering empirical works dealing with separability tests, parametric or otherwise.

This endeavour has a clear message, as echoed in the introductory editorial remarks: there is a case for strengthening the implementation of Divisia monetary aggregates. But the choice of papers by the editor, especially chapters 3, 4 and 8 has partially frustrated him in flashing this message. On the whole, the volume is an important addition to the existing literature on monetary aggregation and hence a wide range of readers – researchers, policy makers, and practitioners of monetary management – should find the same stimulating, informative and highly useful.

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Root, Hilton L. (1996). *Small Countries, Big Lessons*. Governance and the Rise of East Asia. Hong Kong, Oxford, New York: Oxford University Press. 246 pp. \$ 19.95. ISBN 0-19-590026-X.

Due to their outstanding economic growth in association with declining income inequality, the high performers of East Asia are often regarded as a model for other Less Developed Countries (LDCs). But what are the fundamental forces that caused the emergence of these developmental states? Why did interventionist policies work in these cases while they failed elsewhere? By analyzing political and economic processes, Root offers a coherent explanation of the East Asian exceptionalism. His main argument is that governance, defined as '...the capacity of the institutional environment in which citizens interact with each other and with government agencies' (p. 181), is the key to successful development management. The author persuasively demonstrates that the

capability of crafting and adopting new institutions is as important as the formulation of reform programs. Drawing lessons from seven East Asian countries (South Korea, Taiwan, Singapore, Hong Kong, Malaysia, Indonesia, and the Philippines), Root shows how institutional change and innovation shaped the course of development.

Small Countries, Big Lessons distills the analysis of a technical assistance project of the Asian Development Bank on governance and development. It is based on case studies, economic theory, and interviews of academic, government, and private-sector leaders. The well researched study goes far beyond the mere policy realm and represents a splendid addition to the World Bank's East-Asian Miracle study.

In chapter 1, the author presents his main arguments and hypotheses. After challenging conventional wisdom that East Asia's success resulted from authoritarianism or confucianism, Root argues that the role of governments was crucial to sustained economic development. Hong Kong being the exception, all governments chose an active role to foster industrialization. Particularly, one political principle and two institutional factors laid the basis for effective governance (1) 'East Asia's example suggests that it is important for leadership to base its commitment to growth on firm political foundations. An important signal of that willingness is the credibility of the regime's promise to share the benefits of growth widely. (...) Shared growth reduces the longterm danger that social movements will contest regime legitimacy and topple the government' (p. 7); (2) authorities gave priority to public sector reform as a precondition to successful implementation of interventionist policies. They created independent bureaucracies and enhanced civil servants' competency and loyalty through meritocratic recruitment and promotion as well as adequate salaries; (3) governments constrained themselves by creating deliberative councils or informal cooperation and coordination mechanisms. These consultative forums offered functional groups an active participation in political decision-making and represented a state-society interface that helped evaluate policy performance, enhanced political legitimacy, reduced authorities' discretionary powers, and implied a societal consensus for new policies. These institutional frameworks enhanced policy adaptivity, provided the political foundation for economic adjustment, and implied self-enforcing governance structures.

Chapters 2 through 8 comprise country studies which convincingly document the validity of the author's arguments. This also holds for Hong Kong, because even '...laissez-faire policies require a strong state to ensure that officials do not use the allocative mechanisms of the state to divert resources to their private consumption' (p. 63). The importance of institution building for economic development is additionally highlighted by contrasting the high performers with the Philippines, the economically least successful country in the sample. Root demonstrates that the failure to develop institutions that channel social objectives into collective capabilities undermined political legitimacy and impeded development. Deinstitutionalization, personalization of authority, favoritism, and the regime's narrow social foundations paralyzed social cohesion and effective governance.

The case studies help identify generalizations about the institutional matrices and the role of governments in East Asia, which are discussed in the final two chapters. Chapter

(written with Barry R. Weingast) challenges the postulate of a minimal state and argues that the successful Asian regimes created the institutional foundation for a *strong but limited government* (capable of protecting property rights and implementing reforms, but prevented from confiscating private wealth), which is a precondition for economic development. Inherent to this type of government are mechanisms separating the economic and political functions of government and prompting politicians to abide by the limits of their power. In chapter 10, Root synthesizes his theoretical arguments and empirical findings. Creating the capacity to implement reforms is of utmost importance. Establishing political institutions that ensure predictability, accountability, and transparency of policymaking as well as broad participation of social groups induce a societal consensus to growth-oriented policies and enhance the incentive-compatibility of government policies and economic performance. This helped East Asia's high performers to manage the transition from a network state based on rule by moral authority vested in persons to a rule-based society. An independent bureaucracy embedded in society through deliberative councils ensured an effective policy dialogue, increased the political feasibility of reforms and facilitated structural adjustment.

East Asian experiences significantly improve the understanding of the links between the economy and the polity if one avoids thinking in analytical categories that are too big. Pitting democracy against authoritarianism or the state against the market offers little insight into the forces that make democracy work or how institutions determine economic outcomes. Root chose a more nuanced approach to analyze the role of the state for economic development and concludes that governance and the emergence of liberal institutions are independent of regime type.

The final part of the book consists of an appendix summarizing the major policy implications for other LDCs. The institutional framework conducive to good governance includes building government capacity, improving accounting and auditing, administrative reform, providing a legal and regulatory framework for development, and creating a coalition for change.

Small Countries, Big Lessons is a concisely written, excellent addition to the ever-lasting debate on the role of governments for economic development. By demonstrating the central role of institution building and highlighting the complementary role that governments can play to support markets, it presents new theoretical insights and practical ideas that will inspire students of economic development as well as policy-makers.

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