Book Reviews

Intermediate Economic Statistics

By Karl A. Fox. John Wiley and Sons, Inc., New York. 568 pages. 1968. $13.50.

WITH THE PUBLICATION of this text, Karl Fox hopes to update economic training--undergraduate as well as graduate. According to Fox, "dramatic changes have been accumulating since the mid-1930's." These changes are highlighted as he sets out to integrate statistical techniques with the concepts and problems of economics. To help him reach this objective he has at his disposal a wealth of experience gained from his work in and outside Government agencies.

In the opinion of this reviewer, however, the text serves a different role. Placed in the hands of the experienced instructor or the seasoned analyst, it makes available the practical insights of a knowledgeable economist and researcher. It serves as a valuable supplement to standard reference materials. Since it relies on recent developments in economic analysis, the practicing analyst and the novice can benefit from this author's experience.

Fox states that his first nine chapters could be used as the basis for an undergraduate course; chapters 5 through 14, the basis for a graduate level course. The text begins with a presentation of background material on the role of economics and then proceeds to review economic and statistical concepts in two brief chapters. Fox notes that the student should have covered the content of an "adequate" economic principles course as well as a statistics course prior to these chapters. Thus, he plunges forward immediately. The logic of simple regression, a discussion of index numbers and time series, the interpretation of results from simple and multiple regression analysis, elements of analysis of variance, and structural analysis of economic time series are topics that take the reader through the first nine chapters.

The remainder of the book takes up the development of macroeconomic models. Two attempts at the construction of large-scale economic models of the U.S. economy, the Klein-Goldberger and the Brookings-SSRC econometric models, are described, together with a discussion of their relative merits and shortcomings. Fox recognizes the importance of such problems as multicollinearity, identification, and aggregation that are inherent in large-scale model building. Subsequent chapters go into these and other problems in more detail. In addition, alternative methods of estimation that have arisen in recent years are reviewed briefly by two colleagues, J. K. Sengupta and B. C. Sanyal.

Throughout the text, Fox makes liberal use of practical examples and charts in an attempt to illustrate certain relationships or to clarify a point. A times, more detailed formulations and further explanation are presented in an appendix to a chapter. The derivation of normal equations, matrix algebra fundamentals, and a short-cut graphic method of multiple regression are some topics shown this way. Exercises at the end of each chapter help to reemphasize important concepts for the student.

Fox does not treat theory and related mathematics fully in all cases. This may prove disappointing to some readers. The depth of detailed discussion varies depending on the topic. Consequently, his initial assumption of "adequate" preparation may be too rigid; perhaps, unrealistic. However, the important basic concepts are adequately referenced for the serious student who wishes to "dig a little deeper." For these reasons, I believe the text will be more useful at the graduate level. Most certainly, it is a worthwhile supplement for the practitioner.

Hyman Weingarten

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Hyman Weingarten

Older Rural Americans– A Sociological Perspective

Edited by E. Grant Youmans. University of Kentucky Press, Lexington. 321 pages. 1967. $8.75.

ALTHOUGH MOST OF THE chapters in this book are written by sociologists, there is much of interest for economists who may seek insights in interpreting their research findings, who may wish to include elements of sociology in future studies, or who may desire to evaluate priorities for research on problems of the rural aged.

Economists may be most interested in the chapters by Henry D. Sheldon, "Distribution of the Rural Aged Population," and Juanita M. Kreps, "Economic Status of the Rural Aged." The first of these chapters presents population comparisons for rural and urban aged with projections for future age relationships on a national level; the second contains analyses of employment opportunities for rural compared with urban aged.

The findings presented in most of the chapters are derived from case studies or from limited samples and hence do not lend themselves to widespread and unequivocal application. They do, however, suggest important questions or relationships for economists to consider. For example, the chapter on "The Middle-Aged and Older Rural Person and His Family" presents an explanation of the life cycle concept used as an independent variable and as a process. This concept could prove useful for analyzing consumption patterns of aged persons in household of various age-size compositions.

It is important to remember, as Arnold Rose pointed out in his essay on "The Rural Setting," that in studying the rural aged of today, one is attempting to prepare for needs of the rural aged of tomorrow. The rural community of today may be quite different from that which develops in the future--due both to changing rural-urban relationships and to the generational differences that will have been experienced by the aged of tomorrow.

Three chapters on minority groups indicate the special economic, social, and psychological problems associated with each. The American Indian, for example, characteristically does not manifest the appearance of old age until late in years. For this group, the difference between age as an idea and as a physiological actuality is important. Spanish-speaking Americans in the younger generations are becoming rapidly assimilated into the dominant culture. Hence, it is expected that in future generations of aged persons, illiteracy will be reduced and the minority group problems for Spanish Americans will become minimal or will disappear. Aged, rural Negroes have a very low socioeconomic status.

Other chapters deal with housing, health care, and community and work roles of the rural aged. One chapter describes Federal, State, and local programs for the aged. Examples are presented of specific projects in various areas of the country. Throughout the book, comparisons are made between rural and urban groups so that the relative position of the rural aged in society can be more clearly evaluated.

The book is written clearly and with a minimum of sociological terminology. The concepts and terms used are, for the most part, defined or presented so that a nonsociologist can understand the basic relationships.

Anne E. Hammill

Trade, Aid and Development– the Rich and Poor Nations

By John Pincus. McGraw-Hill for the Council on Foreign Relations, New York and London. 400 pages. 1967. $10.

IN THIS INTERESTING, informative, and provocative book, Pincus attempts to bring together the various elements of international economic policy as they bear on the economic development of underdeveloped countries. The research and writing of this book were sponsored by The Council on Foreign Relations. The author has not tried to cover all aspects of development thoroughly in a single volume, since one of the major elements, international monetary arrangements, is discussed elsewhere. A second element, the effects of the domestic economic policies of poor countries on their trade, capital flows, and growth, is omitted because of limitations of time and space. The first two chapters present in general terms the political and economic bases for foreign aid and trade.

Next, there are two chapters which, as the author admits, digress from the main theme. These chapters review classical, neoclassical, and contemporary trade and development theory.

Three chapters (5 to 7) deal broadly with the principal policy issues of trade and development, embracing choices and issues of commercial trade policy for manufactured products and commodity trade.

Chapter 8 examines the demand for capital in the developed and the less developed countries (LDC's) in terms of the requirements, levels, forms, and sources of aid and the role of foreign private investment.

A summary chapter entitled "Policy for the Rich Nations" reviews the costs and benefits of foreign aid and surveys the limitations and prospects of trade, aid, and investment policies.

Pincus argues that each country which offers aid or other concessions does so in the expectation of receiving benefits. Testimony to this, he claims, is evidenced by the widespread doubts and continuing controversies about the merits of aid in the major donor countries.

Pincus states that aid and trade may substitute for each other to a limited extent and may also act to reinforce or offset each other's effects. Assuming that rich countries want to help poor ones but are reluctant to raise aid levels, he suggests that the rich should seek to promote trade and the poor to promote both aid and trade.

The United Nations Conference on Trade and Development (UNCTAD), which met in Geneva from March to June 1964, gave clear expression to three different conceptions of the international economy in addition to the Soviet view. The author indicates that in contrast to the advanced countries (excluding the USSR), which were reasonably content with their present level and share of the world's income, the less developed countries were profoundly dissatisfied with the present distribution of world income.

The author belabors the United States for what he regards as an excessively rigorous verbal devotion to liberal trade principles that it violates daily, and for failing to propose positive measures beyond those expected from what he regards as the long-oversold GATT negotiations. He asserts that basically the United States has never decided what it wants to gain from its aid to underdeveloped countries, although U.S. aid policy has stressed helping LDC's toward self-sufficiency.

Pincus believes that trade and investment promote a market discipline that stimulates growth, while aid may not. Trade, by enriching both parties, simultaneously makes it easier for the rich to give aid and less necessary for the poor to obtain it as a condition of growth. He indicates that there is clearly no special relation between trade and economic development. The percentage growth of Atlantic Community exports was nearly twice as great as its income growth during the past decade; underdeveloped countries' exports rose a little slower than income. Yet income in the two areas grew at nearly the same rate. These findings, he emphasizes, underline the possible error inherent in always equating income growth and trade growth. Even though some countries (Israel, Jordan, and Taiwan) have received an important stimulus from foreign aid, the mixed record of achievement reveals the inability of any single formula to explain economic growth, or its absence, in the LDC's. Each underdeveloped country is a special case, and each will develop differently.

Pincus' approach will be welcomed by all those who feel that a policy is impractical when it calls upon rich nations to give more aid and at the same time to renounce the exercise of political power. For truly effective economic aid, he calls for enlightened self-awareness on both sides: a clear understanding by the donor nation of what it can hope to achieve through economic concessions, what it will receive in return, and a clear knowledge on the part of the recipient nation of what is expected of it and what "strings" are attached to the trade or aid concessions received.

Robert L. Tontz and Isaac E. Lemon

Why Growth Rates Differ: Postwar Experience in Nine Western Countries

By Edward F. Denison assisted by Jean-Paul Poullier. The Brookings Institution, Washington, D.C. 492 pages. 1966. $12.50 cloth, $4.95 paper.

IN RECENT YEARS, many questions have been asked about economic growth--about its stages, its strategy, and its statistics. Edward Denison, in collaboration with Jean-Paul

Poullier, has done more than merely examine these questions; he has attempted to present some of the answers. He focuses on historical reality as it is related in the statistical records of economic change from 1950 to 1962 in nine Western nations: the United States, France, Germany, the United Kingdom, Italy, Norway, Belgium, the Netherlands, and Denmark. From this perspective he identifies 23 quantitative changes in inputs and efficiency which affect the dynamics of economic outputs.

The book is a straightforward statement. Denison identifies the assumptions from which he begins and presents data in support of the conclusions with which he ends. In between he convincingly demonstrates that economic growth is no easy process. The sources of growth are many and varied. Substantial increases in a nation's growth rate can be achieved only through a combined contribution from many sources. Small changes in growth rate result from relatively large changes in a single input.

Fortunately, Denison has not matched the complications of the process in his presentation. Instead, the ease and clarity of his writing seem to place the understanding of economic growth within the scope of human ability.

Among the many questions asked about economic growth are those questions which compare one nation's growth with another's. The concept of an economic gap is often misused. In the 1960 Presidential Campaign, John F. Kennedy stated that the U.S. growth rate was lowest among industrialized nations without differentiating long-range changes from short-range changes associated with the business cycle (see p. 342). Such misunderstandings prompted Denison and Poullier to begin the scholarly struggle which the book's 492 pages represent.

Two ideas are crucial to their explanation of why growth rates among developed nations differ: (1) reallocation of surplus farm labor, and (2) education.

The attention devoted to the exodus of farmers and to the education of the working force gives any student of economic development a reason to know about this book; it is this emphasis that gives the book its uniqueness, its relevancy, and its chance to number among the contemporary classics on economic growth. Denison's analytical approach to economic growth was developed in his first book, published in 1961 and entitled "The Sources of Economic Growth in the United States and the Alternatives Before Us" (Suppl. Paper 13, New York, Committee for Economic Development). In his second book he uses the same approach, adding the concept of comparison to his analysis. A look at U.S. growth rates compared with the growth rates of eight European nations was prompted by two questions that were plaguing Washington's economic policymakers: "Why had the economic performance of the American economy measured up so unfavorably against the economic miracles of Europe?" and "Will Europe's growth rates continue to surpass that of the United States?"

An entire chapter is devoted to the "Excessive Allocations of Labor to Farming and Self Employment." In it Denison responds to the first question:

> . . . the United States has curtailed excessive employment in agriculture about as much as any European country . . . . However, the large continental countries started in 1950 from a position where the waste from misallocation was much greater, and a reduction of this waste contributed much more to the 1950-62 growth rate of output per man in continental Europe than in the United States.

Denison estimates that the contribution to the 1950-62 growth rate of the shift from agriculture was 0.25 percentage point in the United States, but 0.65 in France, 0.76 in Germany, and 1.04 in Italy. He concludes that "this source consequently explains much of the difference in growth rates between the United States and Northwest Europe as a whole and among the individual countries" (p. 201-202, 215).

Denison's conclusions are especially credible because he has given careful attention to the methodological differences in national statistics and has apparently overcome most of them.

As Denison describes how the reallocation of farm labor occurred, explains how reallocation is related to growth rates, and estimates the contribution from this source in specific countries, the reader can retrace Denison's analysis of the question and the implications of his answer. Tables, generous in number and in detail, provide factual support for Denison's words and serve as quantitative summaries of his concepts.

To the second question concerning future differences in these developed nations' growth rates, Denison responds first in terms of the immediate future: "So long as the opportunity to gain from reallocation of resources remains large, Western Europe as a whole should be able to obtain larger increases than the United States in national income per person employed . . ." (p. 342).

Then he responds in terms of the distant future, predicting that it will be a long time before U.S. levels of per capita output are reached by the Northwestern European nations because the United States has continued to exploit her available opportunities for growth. Specifically, the United States has exploited the opportunity to increase the quality of the labor force through education. "Educational background is a crucial determinant of the quality of labor. It conditions both the types of work an individual is able to do and his efficiency in doing them . . ." (p. 78).

In his first study of U.S. growth from 1920 to 1957, Denison traced 23 percent of the total economic growth obtained during that period to education. In this current study of the 1950-62 period, Denison estimates that this source "raised the average quality of American labor by 9 percent (or 0.7 percent a year) and contributed one-half a percentage point to the growth rate of national income. Improvement in the educational quality of the labor force was only half as great in Northwest Europe . . . the present tendency is for the gap to widen . . ." (p. 78). He concludes:

> This finding which I consider unambiguous and firmly based--that the education of the labor force has increased less, not more, in Europe than in the United States--is a major one . . . . Education is, therefore, likely to remain a factor operating towards widening the gap in income levels between the United States and Northwestern Europe (p. 101, 107).

International economists, presumably Denison's most important audience, will be disappointed by two weaknesses of this study. First is his admitted reluctance to offer anything but "experimental calculations" for the contribution made by a reduction in trade barriers. The experimental calculations arbitrarily establish a zero gain for the United States and a mere 0.8 percent of a total growth rate of 3.80 for Northwest Europe (p. 298, 300). The study ends just as the gains of Europe's relaxation in tariff barriers within EEC and EFTA begin.

Second, in the Epilogue for American Readers, Denison says:

> The contribution made by international investment should not be overlooked. If, in the future, American investment in Europe is impeded by restrictions imposed in response to the American balance of payments problem or by European opposition, it will be unfortunate for growth in both areas (p. 344).

Unfortunately, especially in light of current concern about U.S. investments abroad, Denison fails to provide substantial evidence in support of this statement.

Several questions about economic growth and growth-rate differences remain to be answered: Is education best quantified, as Denison does, in terms of hours spent in school? Is he justified in omitting all contributions of education obtained in commercial and trade schools and on part-time programs? What role has the demand created by Madison Avenue advertising techniques played in the growth of the economy? What contribution is made by the correct interrelation, balance, and harmony of the 23 sources Denison identifies?

In not answering these and other questions, Denison was aware of his own limitations and the limitations of present methods. Working within these limitations, Denison has endeavored to present a cogent, comprehensive analysis of "Why Growth Rates Differ." He has succeeded.

Ann Miller

Agricultural Development, Planning and Implementation; An Israeli Case Study

By Raanan Weitz and Avshalom Rokach. Frederick A. Praeger, New York. 404 pages. 1968. $20.

WHEN, IN 1966, J. Price Gittinger published his survey of "The Literature of Agricultural Planning," he stated: "By far the most serious lack in agricultural planning literature is detailed, analytical case studies prepared by perceptive trained workers." The present study is a notable contribution to filling that lack.

Although Israel as a developing country is atypical from the point of view of size, available capital inputs, and quality of manpower inputs, a study of the planning and implementation of agricultural development in this microcosm can give us many insights into the magnitude and complexity of the development task.

For example, in planning the most advantageous use of limited land and water resources, European markets for high value export crops were intensively studied and projections of future demand and future competition in those markets were made. Probable price trends and the ability of Israeli products to meet competition, while at the same time providing rural residents with levels of living on a par with urban industrial workers, were postulated as considerations in decision making. Such studies led to specialization in citrus and deciduous fruits, winter vegetables, and dairy and poultry products. Continued reliance on imports for supplies of bread grains and feed grains became national economic policy.

In planning for the organization of agricultural production, large-scale factory farms using hired labor were considered as well as the collective (kibbutzim) and family farms. It should be of special interest to Americans to note that the ultimate decision, based on study and experience, favored the family farm. These are organized around village centers (moshavim) where most marketing and purchasing functions are carried out cooperatively. Regional centers to provide more sophisticated services for groups of villages were planned. Higher education, cultural centers, hospitals, processing facilities, agribusiness, and, eventually, industry, will not only provide goods and services to the farm sector but employment for surplus rural population.

As a chronicler of agricultural development in Israel, Raanan Weitz knows whereof he speaks. He has been associated with the Settlement Department of the Jewish Agency for 30 years and is now its head. Avshalom Rokach works with Weitz. The Settlement Department is responsible for planning and development of agricultural colonies in Israel. The agency nurtures the colonies and the colonists until they become economically viable and socially integrated into the national pattern. Then the new villages and towns become self-governing units receiving their government services from regular units of government such as the Departments of Agriculture, Health, and Education.

Although the authors mention a few cases of failures in settlement projects, they are only superficially analyzed and quickly passed over. Likewise production problems--such as a high proportion of unexportable "hollow" tomatoes--are treated as problems soon to be solved by the researcher. The authors are recounting a success story. Sadly, only small segments of their experience are transferable or even adaptable to today's developing countries within existing limitations of capital and human resources.

Jane M. Porter

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