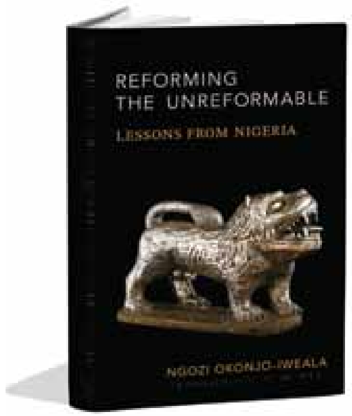
A Janus-Faced Turnabout



Ngozi Okonjo-Iweala

Reforming the Unreformable

Lessons from Nigeria

MIT Press, Cambridge, Massachusetts, 2012,
202 pp., $24.95 (cloth).

Ngozi Okonjo-Iweala's story of Nigeria's claw-back from economic volatility, infrastructural and institutional disrepair, and rampant poverty to greater stability is exceptional. It could only have been written by a Nigerian in the trenches during the process of economic restructuring and governance reform.

This story is told in satisfying detail. It provides key economic insights in readable language and frank descriptions of the challenges faced by the economic team she headed as minister of finance from 2003 to 2006. She assesses the positive as well as ambiguous results of macroeconomic reforms implemented during President Olusegun Obasanjo's two terms. She tells the story dispassionately, credits Obasanjo with foresight, identifies her own strengths and errors during the process, and is gracious as she describes how some tried to engineer her failure or throw roadblocks into the process.

The popular critique held that Nigeria could not come out of its economic slump because of the "curse" of oil wealth, militarism, state involvement in the economy, and corruption at state and local levels. But Okonjo-Iweala demonstrates this to be untrue. By 2007, Nigeria was able to stabilize the macroeconomy, reduce inflation, double economic growth to 6–7 percent, and start rebuilding the education and health systems. She shows that bold national leadership, paired with concern for citizen wellbeing, can be a powerful force in changing an economy.

Among the lessons from the Nigerian experience Okonjo-Iweala outlines for reformers are the need for a playbook that an economic team can follow, for effective communication, and for a results-oriented focus that enlists civil society and the public. The political will of the domestic leadership was important, she says. But Nigeria's turnabout was Janus-faced: it also required strategic assistance and partnerships with the international community.

Brazilian businessman Amaury Bier, for example, told her to assemble "an Economic Team of like-minded people who can stick together and to fight tough battles," while U.K. Prime Minister Tony Blair and World Bank President James Wolfensohn advised her that a macroeconomic reform strategy could open the door to successful discussions on debt relief down the road.

Okonjo-Iweala stresses the relevance of African history in designing strategies for economic reform. Nigeria's oil-induced economic nightmare and recovery were affected by the history of ancient ethnic and cultural/religious communities, divide-and-conquer colonialism, and the 1967–70 Nigeria-Biafra war followed by 25 years of military rule and agricultural and social decimation. But she believes governance always makes the difference.

Top successes included reducing leakages in the budget process, implementing an oil price–based fiscal rule that enabled more transparent budgets, reaching macroeconomic stability by 2006, increasing foreign reserves, reducing inflation and lending rates, and achieving 7 percent growth. In 2003, the Obasanjo government began privatization, deregulation, and liberalization.

The greatest challenges were reforming the civil service to improve service delivery and rationalize pensions and eliminating the corruption surrounding trade, tariffs, and customs. Poorly educated civil servants bolstered their meager salaries by permitting the elite to divert revenues of government agencies and use those revenues to bolster their status as regional benefactors. Word is that Okonjo-Iweala's sudden transfer in 2006 from minister of finance to minister of foreign affairs was due to her unwillingness to condone abuses by politicians in rice importation who used those revenues to cultivate party loyalties.

The story takes Nigeria watchers backstage and shows us the complexity of initiating macroeconomic reforms in an African society whose diverse political classes have benefited from resource mismanagement, financial liquidity, agricultural collapse, educational decimation, and citizen impoverishment. Okonjo-Iweala shows how daunting it was to break the hold of politicians over oil revenues and push Nigeria toward stable, diversified, market-driven, and socially responsible economic governance.

Okonjo-Iweala, who after four years at the World Bank returned in 2011 as finance minister under President Goodluck Jonathan, ends by looking forward, recognizing that Nigeria's success can help transform Africa. She asks whether the reforms will be sustained and lead to Nigeria's continued growth and, if they are, whether they can be a role model for the rest of Africa. She returns to the importance of support and monitoring by the global community, as well as Nigeria's continued commitment to fighting corruption, strengthening the macroeconomic framework, and advancing financial sector reform.

We are left to ask, "Will this last?"

Gwendolyn Mikell
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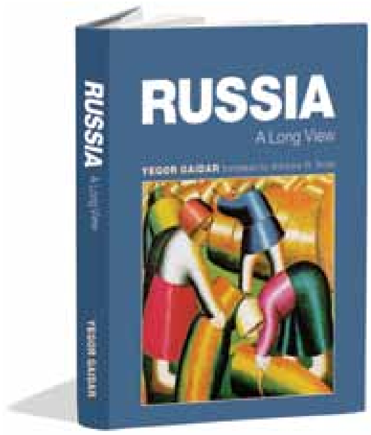
The Big Picture



Yegor Gaidar

Russia

A Long View

MIT Press, Cambridge, Massachusetts, 2012, 525 pp., $39.95 (cloth).

Yegor Gaidar, chief architect of the economic reforms of the early 1990s that led to the creation of a market economy in Russia, was also a fine writer and scholar—qualities amply displayed in this book.

The Russian version, published in 2005, focused on the nature of economic growth and contributed significantly to the debate in Russia about the need to modernize the economy. The English version omits some details about policies in Russia and adds a brief epilogue written in 2009, shortly before Gaidar's death, so only a third of this book is in fact about Russia.

Gaidar first offers a broad overview of world history starting with the Neolithic era, moving through Roman and Greek city-states, then static agrarian and nomadic societies, to the origins of modern economic development in Europe.

There is an interesting chapter on Marxist ideas about economic change and another on the underlying determinants of economic growth and associated societal adjustments. The chapters on the economic history of Russia and the Soviet Union are thorough and balanced.

The last part of the book focuses on problems of the "post-industrial world"—mainly Western economies. These include those caused by aging and declining populations, the size of government, the disincentives of welfare systems, the high cost of state pensions, the quality of public education, financing health care as costs rise, corruption, and the politics of economic reform. As he analyzes these problems, Gaidar draws lessons for Russia.

The result is broad brush, if rather sketchy. (Indeed, the subtitle of the Russian version is *Sketches in Economic History*.) But it is firmly grounded in Gaidar's remarkably wide reading, as demonstrated by the extensive endnotes. Although an economist, Gaidar goes well beyond economic analysis and writes more in the spirit of Schumpeter, Marx, or Kuznets than modern econometric historians.

However, he also makes skillful use of statistical evidence—for example, comparing Russia with western countries in past years when they were at a similar level of gross domestic product per capita. Whether dealing with statistics, political philosophy, or historical controversies, Gaidar's writing is always clear and lively, as befits a former journalist.

Only a glimpse of Gaidar's conclusions can be given here. He believes that as countries develop, their institutions change, in accordance with Marx's view that technology determines social and political relations. (Gaidar may have emphasized this point to give the stamp of Marxian authority to the view, unpopular in Russia, that Russia can learn from Western countries.) Traditional agrarian societies did not grow much until elites who extracted the surplus from the masses and spent it on consumption or warfare were weakened and others were able to keep the returns from their investments. Modern economic growth started in Europe with the merchants of the city-states, the geographic discoveries, embryo financial systems, and more secure property rights. Cultural factors are important in growth: for example, the importance of family ties in some cultures may delay the development of arm's-length business relations and lead to crony capitalism.

The Soviet economy collapsed because it discouraged innovation and international competitiveness, squeezed agriculture, and became dependent on oil and gas exports to finance its inefficiencies. The fall in oil prices in the 1980s created a crisis. The transformational recession in Russia after the breakup of the Soviet Union in 1991 and the start of economic reforms in 1992 was inevitable and not the result of the particular reforms adopted, Gaidar argues.

Here are some of the lessons Gaidar extracts for Russia. It must encourage immigration to compensate for a declining natural population, raise retirement ages, and encourage private pensions. He says there is little room to increase the size of the government. The state should finance a basic level of health care beyond which costs should be covered by insurance, and encourage market mechanisms in education and health care. Russia must replace its current managed-democracy system—in which vested interests stifle reforms and corruption thrives—with an active democracy that encourages reforms.

In general, Gaidar's recommendations reflect a somewhat conservative view about the respective roles of government and the market, and he argues his case with skill and erudition.

Russia can learn from Western countries.

John Odling-Smee
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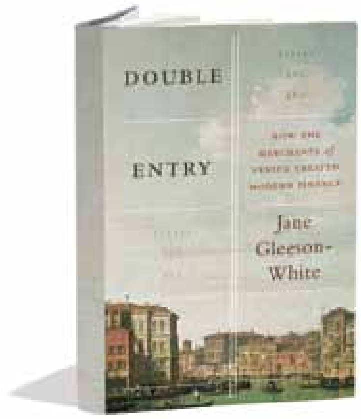
Debits and Credits



Jane Gleeson-White

Double Entry

How the Merchants of Venice Created Modern Finance

W. W. Norton & Company, New York, 2012, 304 pp., $26.95 (cloth).

In this surprisingly readable book, Jane Gleeson-White paints a colorful description of the birth and development of double-entry bookkeeping. After establishing the genesis of modern accounting, Gleeson-White heads in a more speculative direction, postulating that double entry made the wealth and rise of the Renaissance possible, fueled the development of capitalism, and was a pivotal precursor to the system of national accounting theorized by Keynes. With all this historical might, double entry now has the ability to "make or break the planet" in the 21st century.

The first half of the book, covering the life and career of the founder of double-entry bookkeeping, Luca Pacioli (1445–1517), makes for a fascinating story. Pacioli's brilliant mind was used to good effect in his roles as mathematician, magician, and Franciscan monk. Taking advantage of the invention of the Gutenberg press, he published several books, including the first mathematical encyclopedia of the Renaissance, which contained a bookkeeping treatise that extolled the virtues of Venetian double-entry bookkeeping and has become Pacioli's main legacy.

Pacioli broke with tradition to write his double-entry treatise in the vernacular, which made it accessible to all, thereby promoting its use, and he was instrumental in the gradual replacement in Italy of Roman by Hindu-Arabic numerals.

Fast-forward a few centuries and the legacy of double entry is apparent: the financial statements of a joint stock company reflect Pacioli's intent of knowing "whether his business goes well or not." The development of accounting standards and principles have also surely been shaped by double-entry bookkeeping. Unfortunately, in later chapters, the book tends to sensationalize (or at least overstate) the impact and influences of double-entry bookkeeping. Like the commonly expounded "butterfly effect"—whereby a hurricane is traced back to the initial movement of a butterfly's wings—double entry is deemed to be behind all the imperfections of modern day decisions based on accounting data. Even the Ford Pinto affair (when the auto company used an accounting-driven cost-benefit analysis to decide against fitting a safety device to the Pinto car in 1977) is blamed on double-entry bookkeeping having "morphed into an exacting global calculus and created a culture that makes possible reasoning which generates ruthless decisions." Accounting is surely but one tool of the human conditions of greed and ruthlessness.

Rather jarringly, the book also wades quite unapologetically into controversial debates about the nature of accounting as a social phenomenon. Chapter 7's title "Double entry and capitalism—chicken and egg?" prepares the reader for an objective debate about whether double entry enabled capitalism to flourish or vice versa. Within a couple of paragraphs, however, it is clear where the author's sympathies lie: German economist Werner Sombart's 1924 thesis that double-entry bookkeeping was such a powerful tool that it led to the development of a new social and economic system that we call capitalism is "balanced" by only a passing reference to South African economist Basil Yamey's opposing arguments. The bibliography and citations are similarly lopsided against more conventional views that accounting is the result of social organization and associated pressures.

Eyebrows may also be raised, especially among accountants accustomed to balance sheets and accrual accounting, over the notion that the system of national accounts owes its origin to double-entry bookkeeping. Keynes's *General Theory* that aggregate output is determined by consumption plus investment is essentially an equation that must balance by definition, rather

Accounting is surely but one tool of the human conditions of greed and ruthlessness.

than a ledger that has codified, classified, and summarized the assets, liabilities, income, expenses, and capital of the economy (via matched debits and credits).

Leaving aside these quibbles, the book is a good read for the accountant and nonaccountant alike. Gleeson-White sets a brisk pace and has a knack in her character portrayals for balancing detail and generalization. Digging out some fascinating nuggets brings Pacioli to life. One can only imagine, for example, the behind-the-scenes maneuvering by Pacioli when the friars of his monastery asked in late 1509 that he be deprived of his papal favors and all administrative duties due to concerns about his lifestyle. Just a few months later, Pacioli had been appointed head of the monastery!

How can accounting "make or break the planet"? For Gleeson-White, the answer lies in understanding better how the measurement (and nonmeasurement) of the value of resources shapes the global economy. A worthwhile endeavor, and almost certainly a challenge that Pacioli would have relished.

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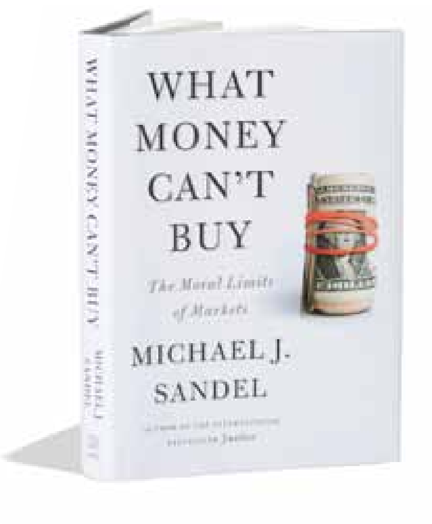
When Everything Is Up for Sale



Michael Sandel

What Money Can't Buy

The Moral Limits of Markets

Farrar, Straus and Giroux, New York, 2012, 244 pp., $27.00 (cloth).

The financial crisis has revived the public's long-standing suspicion of free markets. The distrust isn't limited to "Occupy" protesters; even the apolitical have been left wondering whether, as Occupiers claim, markets promote greed and corrode social bonds. That change in mass public sentiment should be good news for Michael Sandel and his recently released *What Money Can't Buy: The Moral Limits of Markets*.

Readers interested in pondering the social implications of free markets will find much to chew on, though they will probably be left unsatisfied.

But Harvard professor of political science Sandel's purpose is not to roil the 99 percent. He wants his readers to imagine the implications of allowing the market into every conceivable area of our lives.

Sandel draws a distinction between a market economy, which he believes advances health and prosperity, and "a market society." In a market society anything can be bought and sold—human organs, first-class prison cells for wealthy convicts, military contracts for civilian soldiers, and corporate indulgences for carbon emissions. More insidiously, a market society allows economic logic to infuse social and political life.

Sandel is surely correct in his assertion that modern economics has become our premier behavioral science. The model of an individual actor weighing costs and benefits, maximizing utility, and responding to incentives—he notes the growing prevalence of that clumsy word "incentivize"—has swamped other modes of describing human behavior, especially in the world of public policy.

Sandel believes there are two major consequences of a market society—first, it intensifies inequality. By "making money matter more," he argues, income inequality fuels social inequality. Shared public spaces, including schools, parks, theater lines, and airline security queues, may not result in heartfelt solidarity, but they can dramatize the ideal of democratic equality.

What happens, then, when a wealthy lobbyist hires someone to hold space in line for a congressional hearing or an executive signs up for a "concierge" doctor, whose hefty annual fee guarantees individual attention while everyone else waits in the emergency room? What is the effect on social relations when a media executive can enjoy the great American pastime in a luxury skybox far from the beer-soaked bleachers?

Market enthusiasts might defend such inequality with the argument that buyers and sellers are acting freely, but Sandel warns of another dynamic. Especially under conditions of great inequality, money can be a ticket to freedom. For an indigent Indian woman selling her services as a surrogate mother, for instance, poverty exerts "a kind of coercion."

The other pernicious effect of a market society is that it corrupts the objects and services it puts up for sale. Economists protest that the market is neutral about economic transactions, but Sandel believes otherwise: "Markets don't only allocate goods, they also express and promote certain attitudes toward the goods being exchanged." When price and efficiency become the sole way of determining value they crowd out higher human motives. There are some things that money can't buy, Sandel observes; you can't hire someone to take your spot on a jury, for instance, because serving on a jury is an obligation of citizenship that can't be translated into cash.

How much of this is true? Sandel brings little empirical research to the table; in any case, exceptions present themselves easily. He objects to gift cards because he believes they allow people to bypass the time and consideration they use when buying an actual gift. "Friendship and the social practices that sustain it are constituted by certain norms, attitudes, and virtues." I wonder. If I buy a Macy's gift card for my niece because I'm afraid I'll disappoint her with my choice of sweaters, am I really lacking in the proper attitude of gift giving? If my friend hires a writer to compose a wedding toast—another of Sandel's examples of the market's putative corrupting power—he will do all he can to keep his transaction secret. That's because he knows he is being lazy. Norms remain intact, though conscience does not.

As for inequality, surely the rich have always purchased relief from dull tasks, discomfort, and crowds; that's why they had private rail cars and wet nurses. What is different today is not that the rich sit in skyboxes, but that a massive upper middle class has made such luxuries more prevalent and visible. At any rate, America's market society has coincided with a boom in philanthropy, social entrepreneurship, and pro bono work—not what Sandel's theory would predict. Sandel is right that inequality and character flaws are problems in a market society, but they have dogged every society, for the millennia before Milton Friedman was born.

Kay Hymowitz
Contributing Editor, City Journal*; Senior Fellow, Manhattan Institute; and author,* Manning Up: How the Rise of Women Has Turned Men into Boys