BOOK REVIEWS

How the West Grew Rich: The Economic Transformation of the Industrial World
by Nathan Rosenberg and L.E. Bridzell
(I.B. Tauris, London, 1986), pp. xii + 353. $70. ISBN 1-85043-016-0.

Three kinds of material are integrated in this readable and throught-provoking book. First, the authors set out their theoretical analysis of the processes of, and preconditions for, economic growth. Second, they outline the kinds of institutional, structural and technological changes that occurred in the development of the West since feudal times. Third, they seek to draw contrasts between the experience and institutions of the West and the rest of the world. Much of the book's appeal comes from the way that these elements are woven together in narrative form rather than being laid out sequentially. However, one gets the impression that this form of structure is being used for its rhetorical impact at least as much as for its ability to hold the reader's interest: in other words, the juxtapositioning of material seems intended to demonstrate the empirical superiority of the theoretical analysis over previous work in this field. As will later become apparent, there remains much work to be done on the empirical side. Nonetheless, this is a book which I would not hesitate to recommend to students of economic history and development.

On the theoretical side, the central theme is that much economic growth comes not from the expansion of existing activities but from innovations in production processes, products, and methods of distribution and organisation. Such innovations are usually undertaken in repsonse to preceived economic insecurity, due to problems caused by environmental changes or by the competitive impact of previous innovators' activities. However, Rosenberg and Birdzell argue carefully that innovation is not, and over many epochs and in many societies has not been, the only possible response in such situations: an alternative way of dealing with insecurity is to try to set up a safe environment in which custom and the legal framework are used to regulate what can happen. The book's key message is that whether or not a society grows rich depends on whether it develops institutions and modes of thinking conducive to trading on the basis of calculation and strategy in the insecurity of unregulated markets, instead of continuing to trade in the feudal manner according to custom and rule and not allowing 'the adversities of change to penalize those who fail to keep abreast of the times' (p. 266).

From the perspective of this book it is not hard to see why the experience of the West has not been universal. Innovations involve experimentation, which entails not merely the prospect of success in bringing problems under control but also the risk of failure and costs of adjustment, even if successful. It may therefore be tempting to try to deal with problems that reflect changes in conditions of supply and demand either by carrying on as though established routines would be adequate to weather the difficulties, or by seeking some kind of Procrustean intervention: for example, 'the first reaction of medieval lawmakers to a shortage of labour, which drove up wages, was to enact new laws that more stringently controlled wages and that prohibited labourers from leaving their masters of their trades' (p. 54). For those willing to consider experimenting with something new, two problems would have to be confronted:

first, the possibility of opposition from those whose own positions would be threatened by the attempt, and who might be in a position to legislate or regulate against it or to threaten to withhold further resources; second, the difficulty of calculating possible payoffs and downside risks if the experiment went ahead — uncertainty associated with the innovation's novelty could be horribly compounded in an environment where levies by those in power tended to be arbitrary and where the legal system, unlike the one that modern Western entrepreneurs take for granted, did not lend itself to calculability.

The book argues that once the possibility is recognised by would-be deviants the direction the economy takes is decisively affected by its structure of political controls. A society in which authority and the supply of investment resources are centralised and which is only prepared to allow changes that do not appreciably disturb any entrenched position is not going to be a hotbed of innovation. On the other hand, if would-be innovators can easily threaten to move themselves (and their potential contributions to the tax base) elsewhere if they meet opposition, and if it is accepted that, in the language of welfare economics, growth in practice does not normally involve Pareto improvements, then either the innovation does take place elsewhere or the society is forced to come up with the freedoms and laws of contract that will be conducive to the innovators staying around and putting their ideas to the test of the local market.

Although the theoretical analysis is well crafted, the book turns out to be unexpectedly thin on comparative material: a discussion of the barriers to innovation in Mandarin China was a fascinating taste of a case study method that could have been pursued much more energetically. One obvious way of testing their central ideas would have been for the authors to do comparative institutional investigations of regions which have had very different growth experiences despite having broadly similar resource bases and climates: for example, Chile/Argentina versus Australia/New Zealand. Unfortunately, instead of investigating the robustness of their analysis in such a way, the authors seemed more intent on showing that previous analyses, such as those which have centred on the role of large corporations, could not adequately account for observed patterns of growth. In doing this they appeared to start to lose their sense of direction, particularly in the penultimate chapter which seemed to degenerate into a somewhat outdated commentary on the relationship between oligopolistic concentration and profit margins: little was made of the possible connection between retained profits and the ability to innovate and it also seemed as if the 'contestability' revolution in monopoly theory was utterly unfamiliar to the authors. Nor was it recognised that merger waves may be mainly defensive or 'paper shuffling' activities that distract managers from the serious business of experimenting with new products and processes.

Given the relevance of this book's arguments for current debates about deregulation and the North/South divide, it is to be hoped that it provokes serious comparative studies. These studies should not just compare the West with less affluent nations; for since the analysis does not take a dichotomising form, it ought logically to be of some assistance in attempts to explain why growth rates in the West have differed. All too often, Rosenberg and Birdzell write as though the West consists of a homogenous group of economies. In reality, of course, one can find a wide range of institutions and growth experiences with no decisive indication that strong government intervention gets in the way of growth: the reader is told nothing of the 'Swedish Model', nor of the peculiarities of the relationship between Japan's uniquely incestuous private enterprises and MITI, despite the fact that these institutional arrangements have often been claimed to have a major role in ensuring these countries' remarkable performances compared with those of the United States and the United Kingdom.

This is a book which members of the New Right and other proponents of the freer workings of markets will love, for in essence it involves a restatement of many of the themes familiar from Adam Smith, embellished with modern legal perspectives and work in the field of competitive strategies and agency theories of the firm. I doubt that 'Green' economists will be similarly enamoured with it: Rosenberg and Birdzell write as though they would frown upon the efforts of, for example, primitive tribesmen in Malaysia who are trying to blockade the logging companies whose activities are destroying their lifestyles and the local ecosystem. But, then, they see 'nothing in the underlying sources of Western economic growth to foreclose the prospect of continued growth' (p.333): their faith in the ability of the market to come up with technological solutions to economic problems knows no bounds.

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Financial Incentives and Entrepreneurial Medicine: Problems and Solutions *by J. Richardson*
School of Health Administration, Sydney, 1987, pp.vi + 127.

This monograph involves a discussion and analysis of the relationship between a health sector's institutional structure and its economic efficiency. Although some structures are conducive to efficiency while others are not, the book focuses on particular institutional arrangements in Australia which are conducive to a higher cost health system than need be. To this end, the phrase 'incentive medicine' is used to describe diagnostic and therapeutic practices which deviate from hypothetical ideals because of the financial incentives built into Australia's institutional structure.

Excluding the introduction and conclusion, and a somewhat tangential chapter on American health maintenance organisations, the book is organised into two major parts. The first part (entitled 'Problems') identifies structural arrangements which may be lowering economic efficiency in Australia's health sector. I say 'may be' because the author is quite adamant in pointing out that the evidence in support of this conclusion has either not been subjected to statistical tests of significance or is anecdotal in nature. It seems that the inefficiency is considered a problem not primarily because of empirical evidence that it exists, but because of *a priori* deductions suggesting that it should exist.

The problems highlighted in the first part of the book are first, excessive provision of services to patients by doctors in their offices, second, excessive numbers of diagnostic (and, in particular, pathology) tests, and third, excessive numbers of referrals by physicians in private hospitals and clinics. There is also concern about excessive reliance on 'high tech' procedures, although this does not become clear until somewhat late in the book.

For each problem highlighted, there is an extensive discussion on the structural arrangements which are conducive to inefficiency. Doctors in their offices are