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EASTERN PROBLEMS AND WESTERN SOLUTIONS

A Review of O. Blanchard, R. Dornbusch, P. Krugman, R. Layard and L. Summers, *Reform in Eastern Europe*, MIT Press, Cambridge, MA, 1991, pp. xix+98 (ISBN 0-262-02328-8).

G. Sinn and H.-W. Sinn, *Jumpstart: The Economic Unification of Germany*, MIT Press, Cambridge, MA, 1992, pp. xvii+243 (ISBN 0-262-19327-2).

J. M. Kovács and M. Tardos (Ed.), *Reform and Transformation in Eastern Europe: Soviet-type Economics on the Threshold of Change*, Routledge, London, 1992, pp. xix+345 (ISBN 0-415-06630-1).

R. Layard, O. Blanchard, R. Dornbusch and P. Krugman, *East-West Migration: The Alternatives*, MIT Press, Cambridge, MA, 1992, pp. ix+94 (ISBN 0-262-12168-9).

"Eastern," "soviet-type," "former communist," what should we call these countries? "Reform," "transformation," "jumpstart," what is the proper term for what is going on there? Exceptional history is characterized by facts invalidating language. The sudden, unexpected and devastating collapse of communist government is difficult to cope with, because much of the theory in use collapsed along with it. At present we have no well-established theory, and therefore no standard terminology for the phenomenon. Western theory applies to existing market economies, and not to those in the making. Eastern theory has lost its basic premise of nationalized means of production.[1] However, this does not mean that we should be silent about it, on the contrary, the most daring intellects are asked to compete. The books selected above are examples of what we find on the market. They are unsatisfactory if read each for their own sake and independently. Together they form an instructive and even structured picture of our new reality.

On complex issues write thin books! The book by Blanchard, Dornbusch, Krugman, Layard and Summers, five prominent authors, of not quite a hundred pages, is a nice, handy, little breviary on reform in Eastern Europe that a policy-maker might carry in his suit pocket. It is easy to read, sober, pragmatic and concerned. The splendid five are part of a group which is less known than each of them individually, the so-called World Economy Group established at the United Nations University in Helsinki. Its objective is to provide an "independent, outspoken, and thoroughly professional academic analysis." This book is their second publication, the first having been on world imbalances. Actually it is not quite clear what the purpose of the publication is. An independent group would have a wider range of views included than just the mainstream economists circulating between Harvard, MIT and the London School; an outspoken opinion would name its addressee more clearly, and a thoroughly professional academic analysis

[1]The only analytical framework able to address such systemic shifts seems to be that of longer history as in Wallerstein (1979).

can hardly address a wide public. Be this as it may, knowing that marketing and product generally diverge, let us look at the book as it is and see what we gain from it.[2]

The book is divided into three chapters, one on stabilization and price liberalization, one on privatization and one on restructuring. Apparently these are considered the main aspects of reform. The authors' goal is "to identify and clarify the main issues and choices rather than to draw a detailed road map." This is sensible methodology in order to employ orthodox theory about market economies in the abstract. Nevertheless the area of application is ill defined: Eastern Europe without the former Soviet Union. This is not consistent. Either you disregard country differences, then you cannot name particular areas of application, or you define an area of application, but then you must demonstrate what is particular about it in your theory. You must answer the question of what is common to the countries considered, and not to those excluded.

Fortunately the authors do not treat much theory (which makes the study less academic perhaps but so much more useful). The approach is pragmatic. The socialist economic system has been destroyed, markets are being established, prices are liberalized, all these are observed facts, no need to discuss them. A problem arises about inflation. And again the approach is healthily pragmatic. No debate about the good or evil of more or less inflation. Eventually, inflation and economic disruptions become so bad that there is no alternative to stabilization. Here the economist comes in, and here the book starts.

There is what the authors call the Standard Stabilization Package. It encompasses a "broad consensus" (within the schools represented in the group, I suppose) which emerged from the lessons of three major waves of inflation, Europe in the 1920s, Europe after the war in the 1940s, and the world financial crisis in the 1980s. The package defines two fields of government action, fiscal consolidation, and elimination of subsidies. Beyond these two basic propositions, the authors find much less agreement on details such as the choice of the nominal anchor of the price level, the target of money growth, the use of income policies, the credibility, and even the eventual success, of the stabilization package.

This is pleasure reading. It is non-academic, but highly professional, if that distinction may be allowed. The authors look into the data for similar events, draw simple conclusions, don't force facts, and pronounce sound judgement. They qualify the application of Latin American experiences by noting that compared to Latin America price distortions are larger in Easter Europe, much more widespread and have been present for much longer. Furthermore, they say, production structure is radically different from a market economy, and there is an overhang of purchasing power. They believe that as a general rule price liberalization and stabilization must be implemented simultaneously, exceptions for specific prices being permitted as they are in traditional market economies. Being firm on the monetary argument they acknowledge the probability of a resulting deep economic contraction and human cost. "We see no way to avoid this outcome." A basic

[2]Another comment on the marketing aspect: The map sketched on the cover of the book is a strange representation of Eastern European territories if that has been intended. It excludes the city of Kiev, and includes the city of Kiel. There was a joke during the cold war that U.S. generals in planning their targets for ballistic missiles could not tell the difference. Is this a proof?

needs program should cushion the effects for those who are hit worst, they conclude without giving much concern to how that could work.

The second chapter on privatization also has a clear message. Again the process as such is not questioned, only the 'how' is discussed. "There is no unique path to privatization, nor is there any best structure of ownership." The advice is: privatization must be quick, and property must be assigned not sold. The argument is that present managers knowing their future to be uncertain will take advantage of the ill-defined situation and reap their own private profits at the expense of public property. The rapid property change cannot be digested by a capital market, except at give away prices, which undervalue the stock. In addition, those who have money in the East have acquired it either as members of the communist nomenclatura or illegally, both of which social strata are not the one's currently being awarded. Property is connected with control. While property should be distributed widely, in order to gain support by the public, control requires concentration. The golden path in the middle is construed by the authors by means of an intermediary institution. A holding firm exercises power vis-a-vis the enterprises and fair distribution of profits to the share owners and population. A rather detailed privatization plan is given, and it would be interesting to compare it to what has actually happed in the meantime.

Restructuring is the third and last chapter, and although its language is as cool as that of the preceding ones, I cannot help but reading it with pity and doubt. "Looking at the post-stabilization performance of countries that have stabilized, one concludes that in most cases economic growth has returned only gradually and unimpressively." And further: "Low wages are simply not enough today for a country to enjoy strong growth." Estimates of redundant labor range between 20 percent and 50 percent, a figure which since the time of writing has not lost significance. The move to world market prices imposes a severe terms of trade shock on Eastern Europe, destroying the trading system of the CMEA, not just institutionally, but materially. The trade flows disappear. The "good news" that can be found in this picture is that Eastern European wages are low by international standards and are likely to remain so, due to limited labour mobility. Other favorable factors are proximity to Western markets, high skills and finally "the pent-up domestic demand for the services and commodities that exist in the West but not in the East." Potential for growth could thus be boundless, if there is a massive infusion of capital and a major transfer of resources.

When, after this intermittant climax, the problems of financial intermediation and of foreign capital inflow are treated, it becomes clear that "unfettered market forces" may make too many firms go bankrupt, have firms fire too many workers, have unemployment stay on too long. The destruction is faster than the creation of new jobs. One cannot help but notice that the authors feel the ideological responsibilities of economists, which is to give hope where science fails. This is not academic, but I will not reproach them for doing so. Whether this is properly framed in the soft term "reform," which has been adopted as title for the book, may be a question for debate.

Apart from the emotional content of the picture drawn here, which will differ with each individual reader, of course, a certain intellectual dissatisfaction remains because of the broad approach taken of covering all countries concerned. Also it is clear that the answers given can be simple because the problems have been posed to make them that way. This is good for writing a short book, but the answers as such cannot pass unquestioned. Just as a matter of contrast the reader is referred to Kurz (1993) where a more academic and diverse approach is shared between the contributors. Now after tasting an abstract recipe recommended for all countries alike let us look at a book at the other extreme, which deals with only one country.

Gerlinde Sinn and Hans-Werner Sinn are Germans. They live closer to the field of action than the World Economy Group. In fact one of them was present when the East German authorities suddenly started to build the wall in Berlin on August 12, 1961. The other is Director of the Center of Economic Studies at the University of Munich. This happy combination makes the book a true achievement. It is compassionate and professional, the two of which usually don't go together. The book has already become a classic in Germany, and it is fortunate that it is now being presented to the English speaking public. In this book the process in question is not called "reform" but "jumpstart."

The Sinn couple are Germans, but they are still "Wessies." Their economics and their thinking are rooted in the West. Thus in terms of economics we don't find much difference between them and the MIT team. It is the same language, and the conclusions are similar. East Germany is a special case, of course. Thus the Sinns do not address the stabilization problem, obviously, because that has been dealt with effectively by the Bundesbank. They do address in depth the issues of privatization, and of restructuring.

Privatization means putting public property in private hands. But in whose hands? Should it be the former owner or the future investor? In political disequilibrium the two roles fall apart, and this has happened in Germany. The politics of unification decreed that property taken from private owners by the GDR regime is to be restituted fully and gratis to the former owners. The alternative would have been to compensate them in some other form of value. Between natural restitution and compensation in value the West German government opted for the first, and the Sinns find this to have been a major mistake as regards the economy of East Germany.

The restitution provisions apply to all property nationalized since the establishment of the GDR in 1949, in particular to

—31,000 real estate properties and nearly 3,000 firms left behind by refugees and confiscated without compensation;

—80,000 real estate properties left behind by refugees and administered by the GDR, then transferred to it after it had become overindebted;

—170,000 real estate properties and 2,000 rights of ownership on industrial properties formerly owned by West Germans;

—12,000 small industrial firms whose owners were forced to sell to the government during a large-scale nationalization program in 1972.

The introduction of the principle of natural restitution cedes legal priority to the former owners of property over present economic interests. Before a nationalized property can be sold its former owner must be found, and a legal claim made by a former owner puts an immediate ban on the disposal of the disputed property. This institutionalizes a difficult and cumbersome legal process, even if facts are clear. Actually, the former owner is far from being certain, given the fact that the person is not alive anymore, or that he has arrived at his own claim in an illegitimate way (e.g. through Nazi expropriation). Land registers, the informational basis of all real estate transactions, were not maintained under the GDR. By October 1991 3.3 percent of the restitution claims had been settled, 90 percent had been contested. It can be foreseen that the handover will take decades to be completed.

The effect on the economy is all too obvious. Investors will not buy undefined rights. Enterprises will not invest in property to which their claim is uncertain. The invisible hand of the market, for which privatization was meant, in the first place, "is put in chains." The uncertainty created impedes the selling of property, the main task of the Treuhand agency holding all former GDR property, and as a remedy Sinn and Sinn propose a plan: Do not sell, but give away! The same strategy as recommended by Blanchard *et al.* A property received for free will be accepted and put to use, even if the claims may be uncertain. In addition the possibilities of compensation should still be widened, of course, by new legal action on the side of the government. Sinn and Sinn propose that the new investor gets the major share in a firm the Treuhand wants to divest, and that the Treuhand retains a share. The Treuhand is not supposed to keep its equity claim, but distribute it to the East German population. One way of doing this is transferring the claims to investment funds and then distributing the funds' shares to the people. The investor receives shares in exchange for know-how and the reorganization funds he contributes, and the East German population receives shares that reflect the value of the old capital held by the Treuhand. In value terms, 100 percent of the Treuhand properties are given to the population, and yet a dominant shareholder is established to carry out the entrepreneurial function. The size of the respective shares is to be negotiated between the Treuhand and the buyer, and this replaces the current bargaining about a cash price. The advantages of this way of proceeding are many, and are spelled out neatly by the authors.

Privatisation is the creation, the birth, of a market economy. The second question is how is the child to be nourished and brought up? How is restructuring to be done? To this long-term problem Sinn and Sinn see one important obstacle, the wage level. "Of all the problems discussed in this book, the most serious is certainly the problem of wages, because if effectively imposes an employment ban on the new states." They argue that the famous German institution of autonomous wage bargaining ("Tarifautonomie") works when both sides are equally strong, but that in determining Eastern wages after unification Eastern business interests were actually not present, because entrepreneurs at this side of the table were all West Germans who "had no real interest in keeping wages low." High wages would certainly make planned investment projects in the East unprofitable, but low wages would reduce the value of their existing capital in the West. "There was plenty of lip service to the idea of low wages from the employers's side but their willingness to fight for them was conspicuous by its absence." "Wage negotiators with proxy negotiation have abused the constitional right to free collective bargaining and have turned it into a farce."

These are strong statements, and therefore subject to some suspicion. Wage bargaining is a market process. If one questions the results of this particular process can one avoid questioning all the others, given the interdependency of markets? In fact, Blanchard *et al.* take note of the high East German wage level as one of the differences between East Germany and other transforming economies and this as a matter of fact, simply as the consequence of integration of labor markets. Opinions are not divided as to the evil effects of wages higher than productivity on competitiveness, they are divided, however, as to whether this move was a necessity or a mistake. Schui (1991), for example, accepts the high wages as less harmful than "the disadvantage of the leaving and wandering of qualified labour to West Germany," and wants the resulting loss of competitiveness to be made up for by subsidies. After all, if the restitution of property is allowed to impede production in the interest of capital, why should not high wages impede production in the interest of labor? And restitution, although the numbers are large (see above) does not touch the majority of the population, its biggest winners being found in the West of the new republic, and among the relatively small group of owners of financial and of real wealth (Christ and Neubauer, 1991).

Sinn and Sinn envisage a great "social compact" between employers, employees and the government, which would substitute increases in current wages by distribution of shares in firms. While this idea may have supplied the drive for writing the book it need not be the motive for reading it. Independent of this particular plan, the book gives an excellent and thorough account of what happened in Germany in the process of economic unification, how it happened, and what the economic consequences are. It is outspoken *vis-à-vis* the politics implemented by the West German government, openly taking the side of the powerless East to help it against a resilient West. It is well-documented, and much solid academic work has gone into it. It would be a star on the reading list of any university course in applied macroeconomics.

Two Hungarians, J. M. Kovács and M. Tardos have given their book the title "Reform and Transformation in Eastern Europe." This is a sizable volume collecting some 20 papers from people whom we would consider experts if the wall had not fallen. First, these are the economists in the East who gained their fame by openly criticizing the economics of the ruling Communist government and by calling for reform, and second those scholars in the West whose field of study was the socialist economies. It is startling to observe, how simply by a change in government a whole study area cracks in power and influence, old experts are devalued, and other people who never before cared about these economies become experts. This is one of the power plays behind language. Socialist theories are not needed any more, and independent of this is the analytical question about which language most appropriately describes the actual economic process taking place in Eastern Europe today. Consequently, the tone of the articles is rather moderate, no presumptions, no recipes. Wlodzimierz Brus furnishes a striking example. Known as one of the leading intellectual figures in the field of socialist economics for the last decades, he restrains from any analytic endeavour and simply delivers himself to "Sketches to a self-protrait of a 'reform economist'" and even this last term, reform economist, is put in quotation marks in order to unsettle its meaning. One of the differences between Western and Eastern economics is the concern about terminology, about the use, and before that the choice of words to be put to concepts.[3]

To take an example, return to the books just mentioned. Sinn and Sinn call their book "jumpstart." The word is first used by Blanchard *et al.* in their introduction: "Clearly the issue there (Eastern Europe, UPR) is not to repair the damage to an existing market but instead to jumpstart one." This is a good description, because it is lively, and used here casually. Sinn and Sinn, however, take the term and make it the heading of their marketing strategy; this is not casual use any more. The term assumes prominence and may stick. So the question must be asked: Is the use justified scientifically, more precisely is the analogy true? The Sinns support the impression by reproducing a picture where they both do jumpstart a Trabant car from a Mercedes car. The German publication is more pronounced in this than the American one. The picture is neat, but what idea precisely does it convey? Typically this is not deemed worth discussion by the authors.[4]

Western economists are not trained in verbal expression. The appearence, the wording, the forming of analogies is left to intuition as a play-ground for fantasy, often in a jocular way, as part of the entertainment of the presentation, on the implicit belief than once you have the math you have everything, don't bother about the words! Wording is used in the West in a much more sloppy way than in the East. This is why Brus put reform economics in quotation marks, why many of the authors in the book are drifting between the concepts of reform and transformation. To them words matter, and the uncertainty in reality is reflected in the uncertainty of words.

"Have the reformers in the communist bloc been communists in disguise or closet capitalists?", is the first question asked in the prologue. This would never be asked by a Western macroeconomist. It is not irrelevant, because behind such questions of wording lurk the moves of power, and while many reform economists are sceptical as to the scientific value and coherence of reform economics they are sure of its adequacy in political terms. To accept the taboo of large scale private ownership was not correct under the rules of economics, but it was under those of politics. Trained as Marxists they have a feeling for institutional, ideological and political implications for whatever functional economics may be discussed. This is one of the reasons why the two groups of economists in East and West never really came together. So Kovács in his excellent "Compassionate Doubts about Reform Economics," which is placed as an epilogue, but should have been the introduction to the book.

[3]In the German tradition we call this type of analysis "Geisteswissenschaft" as opposed to "Naturwissenschaft" on the one hand and "Sozialwissenschaft" on the other. The English term "humanities" covers the same subjects but does not convey the same meaning.

[4]Just to open up a range of possibilities, would not a picture between a Trabant and a Mercedes after collision be more fitting? Or how about having Mrs Sinn disassemble the Trabant and Mr Sinn pondering about how to reassemble it in a Mercedes, piece by piece? To be more serious, does not the jumpstart picture convey exactly the idea which the Sinns do not want to convey, namely, that a spark from the battery in the West should suffice to get the car in the East running, and thus work against their own purpose? Still the jumpstart picture will determine the image of the Sinn and Sinn study in public.

There is much to be learned from the volume about today's macroeconomics. Petr O. Aven bypasses any further elaboration of the need for market mechanisms, of the absurdity of over-centralization and of all-embracing price control, because "they no longer call for any demonstrations." However, new myths and oversimplifications are appearing which usually stem from the negation of the traditional "ideal" model of a socialist economy, its institutional structure, motivation mechanisms and distribution of power. Aven argues that there have been legends about the functioning of the model which were far from what actually happened in reality. One of these is the legend of a command economy where the economic centre—possessing insufficient information—gave almost meaningless orders to the production units without paying attention to their interests and opinions. He says that in fact the complexities of a modern economy were such that the center could not possibly have access to all information, a fact which gave leverage to the subordinate levels for bargaining. He calls the Soviet economy of his time a bargaining economy in this sense, and more than that, he sees in it the theoretical model able to describe and thus to manage the transformation. In the first stages of the bargaining, economy plan targets in vertical haggles were mainly exchanged for material resources. Later economic normatives substitute machinery or raw materials: bargaining for economic regulators begins to dominate. In the process the list of regulators is permanently changing, and now it can be used to introduce a system of common normatives necessary for a market. I must admit the idea does not become clear to someone not acquainted with the existing economic world in the East on the 10 pages accorded to it in the volume. However, it sounds like a challenging concept.

L. Balcerowic in his article on "The socialist calculation debate" follows up the debate about the allocative efficiency of socialism in history and its relevance for the reform concept. He shows how negative attitudes of von Mises socialists such as Oskar Lange responded by proposing procedures of iterative, price-guided planning, whereby the Central Planning Board takes the place of the Walrasian auctioneer; how the concept was refined to deal with initiative, risk bearing and innovation in such a framework; how more and more market elements were added so that in the end, Mises' proposition that only capitalism ensures that proper market information will be generated has ironically come true simply in the development of the reform agenda, even before the actual crash of the socialist institutions took place.

A thorough analysis of "Macroeconomic policies for the transitional reforms in the centrally planned economies" is presented by Leon Podkaminer. He argues three points, first that a non-policy "given the prevailing instincts" will tend to become a rather bad macroeconomic policy. Second, some price controls, even if contrary to the new dogmas may constitute a valuable part of a useful macro-policy consistent with the ultimate goals of the systemic reforms. Third, that there is a very broad set of issues related to the labour problems which include closely connected phenomena: labour market disequilibrium, real wages, living standards, pay systems. "We shall suggest that a key macro-guideline for successful transitional reform may well turn out to stipulate for a sustained rise in real wages." The paper is a thought provoking and courageous stance taken in midst the turmoil of sinking old and emerging new signs and ideologies.

J. Osiatynski writes about the opposition against market type reforms in centrally planned economies, distinguishing four types of reform. The first is only superficial, a non-reform reform, bypassing any institutional changes of the system, the second is improving or perfecting the system, the third is central planning with a built-in market mechanism, and the fourth a market break-through reform. To each of these types he discusses the reasons for which there may be political opposition in the country. He shows, for example, that opposition to market clearing prices appears because these imply a change in the distribution of consumer goods from households where time rather than money is abundant to households with high employment participation rates (and to foreigners, I may add). Therefore the consumption of large sections of the society will be affected. The public can be won over for such a change if political power is based on participation of the public, in short, price reform needs democracy. This is why the first post-communist government in Poland could institute a 30 percent reduction in real wages after the reform was started, in January 1990, while its communist predecessors had not been allowed a reduction of 8 percent only a year earlier.

Besides these encouraging and practical propositions and analyses of insiders, the volume contains a respectable selection of experts on Russian and East European studies from the West, who now suffer from two defects: They are not experts in theory of market economy and they live outside the Eastern economy. A typical result of such alienation is the article by Alec Nove, a true Nestor in the field, on "Soviet reforms and western neo-classical economics." Nove provides a brilliant academic attack against neo-classics as a guide for Eastern economic policy, but the issue is a bit outdated. Even in the West and even those who teach or write neo-classics (see the authors quoted above) are not drawing on it solely when they become political advisers, lest there be a danger of being deceived by it in the East.

A charming article by Xiao-Chuan Zhou is worth mentioning. He distinguishes three schools of thought about economic reform in China—the plan improvers, the market-oriented reformers, and third the new model inventors. These are invention oriented economists who believe that there is no available theory which would be able to solve the reform problem in China. They are constantly trying to develop and create new theories, even a new style of language. They reject the old system, and favour radical reform, but they do not want to study the market theory systematically. Clearly, Zhou is not in their favor, for lack of scientific foundation, and he may be right. However, as a social phenomenon the appearance of such a school is quite understandable and seems fitting for the "land of the middle."

Not all authors can be commented upon here. Besides the authors mentioned there are papers by R. Dietz, D. D. Milenkovitch, I. Grosfeld, H. Leipold, J. M. Montias, R. W. Davies, T. Kowalik, P. Sutela, A. Bajt, E. Comisso, most of which are worth reading. Altogether this book conveys a faceted picture of the Eastern economies, and the general impression that jumpstart is not an appropriate way to get them going.

This completes the list of recommended books. The fourth book quoted above is on migration. It is written by almost the same group of authors as the first one above except for one missing and the order of names being changed to a non-alphabetical one, indicating some uneven shares in responsibility. Nevertheless it is still the same World Economy Group which after their "widely acclaimed" report on Economic Reform in Eastern Europe are now addressing the next issue, migration of people from East to West in Europe. It is interesting to read the claim of the publisher that the authors "as economists . . . are in a position to take a well-informed stance on the economic and social dislocations that are occurring." Reader's interest is sharpened when in the overview the authors refer to Ohm's law as the determining factor of migration, "as in the flow of an electric current." And further: "The flow (now of immigrants U.P.R.) will be proportional to the difference in income levels and inversely proportional to the resistance." And finally "Should the West resist"? Resistance here, resistance there, it seems that the play of words with physics is substituting social theory.[5] More precisely, the fault of the book lies in its treatment by means of economics of a subject area which extends much beyond this discipline.

What is good about the booklet is that it puts the East–West migration in a larger historical and geographical perspective. Data on the U.S., a classical immigration country, are presented and discussed. The last immigrations within Europe or within one country like Italy are sketched. Reference to Algerians returning to France, and Germans refugeeing in Germany after the war is made. Thus reading the book has a sobering effect on a public issue that badly needs such cure. It has more so, because the authors leave no doubt about their esteem for civil rights. "The freedom to move between countries is an improtant value in itself" (p.41). Thirdly the book is good as a first introduction to the literature. In their search for the causes of migration the authors survey "some" of the studies which deal with

—comparative wage levels, actual and expected,
—comparative unemployment rates and unemployment benefits,
—the availability of housing,
—travel costs, information costs, "and the psychic cost of leaving one's culture, friends and relations".[6]

As to the effects of migration, a two pages model is deemed sufficient to prove the impressive statement that "whatever happens is best, at least in efficiency terms." However, the model is cushioned as to not necessarily being realistic. "So we cannot be sure whether migration, if unrestricted, would be more or less than optimal." Trade is considered a possible but not a full substitute for migration, if only indirectly as a force of greater efficiency and thus higher living standards. The story trails off with a chapter, more precisely, with nine pages on "Aid and

[5]In order to avoid the misunderstanding of pecking at words the issue must be explained. In physics where it belongs Ohm's law implies that it is meaningful to define a concept called resistance which is independent of the current and the voltage applied. It is considered as a constant quality of the material used. What in the analogy is the material through which there is the flow of migration? The government, the new country, the old country, the friends, unemployment? And why not use Bernoulli's law or Newton's or any other law expressed by the equation $a = b\,c$? And, finally, what is the purpose of the analogy? Is it to say that not the economist but the physicist is the right scholar to explain migration?

[6]Another example of misguided terminology. To consider the loss of one's culture just under the aspect of cost is a cause for mistreating a social subject. Why is it not possible to simply say that the cultural problems cannot and should not be dealt with by means of economic analysis? Is division of labor not applicable here?

Capital Flows," which after all brings the reader back to the realm of economics. The book can be read in the bookshop before you leave and pay.

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