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Policy Choices for the 1990s

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With a Personal Tribute by Sir Alan Walters

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In memoriam
Bela Balassa
(1928–91)

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Washington, DC

CAROL BALASSA

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Note: The reprinted materials appear as in the original publications except that minor alterations have been made to the style and presentation for the purpose of publishing this collection of readings in book form.

Foreword

Bela Balassa continued to have tremendous vitality to the end of his life. As he wrote himself in his life philosophy, he had the feeling of living on borrowed time during his last three years, 1988 to 1991, which is when he wrote the essays in this volume. Many of them have not been published before. They deal with some of the most important economic policy issues of that period and each one continues to be highly relevant. This is true even of Chapter 11, which analyzes *perestroika* and was presented at a conference in Budapest in November 1989. It is worth reading with hindsight: 1989 was already rather late, but if Mr Gorbachev and his fluctuating team had understood its arguments and acted upon them, history might have been rather different. A common theme runs right through most of the papers, namely, the virtues of the free market and the costs of distortions. There is also a common method, a highlight of which is the comprehensive presentation of the empirical material relevant to each issue. Bela Balassa did not believe in making judgments purely on the basis of abstract arguments.

In this collection, in my view, two papers stand out. The first is the survey from the *Handbook of Development Economics* of “Outward Orientation” (Chapter 1). For many years of his life Bela Balassa has been an analyst of the consequences of inward and outward orientation of developing countries, and on the basis of his work, indeed, an advocate. Perhaps this has been the single most prominent theme in his writings for 20 years. This is an impressive survey which reviews all the issues and digests a massive literature. It should really be a basic reference for all students of developing countries. The other outstanding paper is “A Quantitative Appraisal of Adjustment Lending” (Chapter 4), written for the World Bank in 1988 as a basis for its systematic assessments of structural adjustment lending.¹ This was a very influential paper; it shows how skillfully Bela Balassa could handle a difficult problem empirically.

To give a brief overview of the book, the first nine chapters all deal with policy issues for developing countries.

Chapter 1 is the *Handbook* chapter which gives strong support to the view that an outward orientation has yielded superior results for developing countries, leading to higher rates of growth than an

inward-oriented development strategy. Among other things, this chapter reviews the complex issue of the relationship between export growth and the overall growth of economies. Chapter 2 follows up by comparing the policies applied and the effects of these policies in the Far Eastern and the Latin American newly-industrializing countries. The message that emerges is straightforward: outward-oriented policies have turned out to be superior. Chapter 3 is a brief and neat essay written for the World Bank that provides a conceptual framework for adjustment policies. Chapter 4 is the important paper on the quantitative appraisal of adjustment lending to which I have already referred.

Then follow four chapters that provide overviews of a number of important issues and give the reader valuable surveys of the relevant literature. Chapter 5 reviews the role of public enterprises in developing countries and issues of privatization. Chapter 6 deals with public finance: the effects of the budget deficit, the size of the public sector and public investment on economic development. Chapter 7 deals with financial liberalization, and Chapter 8 provides evidence on the effects of interest rates on savings. These four chapters together really make up a short introductory textbook on public finance and financial policy in developing countries.

Chapter 9 is a short, highly critical paper on indicative planning, something that was once very fashionable in developing countries – and earlier in Europe – but that has turned out to be pretty pointless, and done harm by diverting attention and human resources from more important matters.

Chapter 10 was written in 1988 and deals with the foreign economic ties of the former Soviet Union. It makes various proposals for improving Soviet trade, stressing the crucial need for domestic policies to change in order for foreign trade to be optimized. By now these ideas are familiar, but Bela Balassa was one of the first to write systematically along these lines, and these few pages are still useful as setting out the issues clearly. Chapter 11 is the critical evaluation of *perestroika* written in 1989 to which I have already referred, and Chapter 12 inquires into the possible future relationships of the economies of the reforming socialist countries.

Next we come to several chapters on international trade issues. Chapters 13 and 14 deal with the GATT multilateral trade negotiations, Chapter 13 with the negotiations on subsidies and counter-vailing action, and Chapter 14 with the effects that liberalization of trade in services may have on the United States. The European

Community enlargement progresses parallel with the GATT negotiations, and Chapter 15 considers its effects on nonmember countries and Chapter 16 its effects on the North African–Southern European region.

The final chapters deal with France. Chapter 17 considers the implications for France of the “1992” completion of the internal market. Chapter 18 reviews the economic policies of the Rocard Government. In Bela Balassa’s judgment the record has been pretty good, though there is a particular need to reduce the budget deficit and generally raise national savings.

As a final reflection, certain features stand out in Bela Balassa’s writings and his style.

The theory is implicit. He does not start off papers by laying out models, mathematical equations, and so on, and then proceed to empirical testing or policy discussion. This is a common approach these days, but gets rather boring to read when the models are obvious, at least to reasonably educated economists. His method presents no difficulties in these papers because the implicit models are quite orthodox and thus well-known. Most of the papers can be easily read by non-economists, though they will not usually be made aware of all the implicit assumptions.

The style is straightforward and unfussy, indeed low-key. The main facts and arguments are there, nothing is obscure, and there is no varnish. These papers are written for busy people. They want relevant facts, the main results from the literature, especially econometric evidence, and the main issues and arguments neatly laid out. Having read, or felt obliged to read, much that is varnished, fussy, pretentious, and sometimes obscure, this is all a relief. Of course, there is often a need for explicit theorizing when dealing with policy-relevant issues, particularly when the theory is new or in doubt. In certain papers, particularly the *Handbook* chapter (Chapter 1), I would have preferred to see some of it. But the Balassa style – so easy to read and yet hard to emulate – filled a great need, and one hopes that young economists, tempted by modern fashions, will recognize that this is the style that is often appropriate. For policy-oriented economists the world over, and especially for those concerned with developing countries, not least the staff of the World Bank, the sad passing away of this remarkable man is a great loss.

W. MAX CORDEN

Note

1. See Country Economics Department, the World Bank, *Adjustment Lending: An Evaluation of Ten Years of Experience*, Washington, DC, 1989; and Country Economics Department, the World Bank, *Adjustment Lending Policies for Sustainable Growth*, Washington, DC, 1990.

Bela Balassa's own paper was written in advance of the first of these two papers, soon after the decision to make an appraisal was made.

Bela Balassa: A Personal Tribute

In the 25 years or so that I have known Bela he continued to astonish me – right to the courageous end. There will never be another like him. God broke that mould 63 years ago.

I first heard of Bela in the mid-1960s when he produced his great paper on bias in national income comparisons. In 1966 we were both consultants at the World Bank, I a rather casual one but Bela was a resident economist. I was trying to sell my theories of pricing policies, while Bela had begun that long conversion of the Bank towards the great classical precepts of free trade and outward-oriented policies.

Bela reviewed my manuscripts on pricing policy with shrewdness and generosity. But through all his comments and conversations there was an abiding theme – Bela was a liberal in the grand European tradition from Adam Smith to Fritz Hayek. His teacher at Yale was the incomparable William Fellner, surely the most cultivated and subtle liberal economist of the postwar era.

But Bela's appreciation of a free and open society was no mere academic exercise. He had not only witnessed but had resisted the Russian invasion of Hungary in 1956 and, as one of the freedom fighters, he had fled for his life as well as his liberty. He knew firsthand the miseries of socialism and communism.

Through the 1960s and early 1970s, when the vicious cycle (of poverty), central planning, the promotion of state-owned heavy industry, and trade restrictions through high tariffs and low quotas were such fashionable concepts, Bela was never diverted from his vision of an open liberal society. Trade and commerce and all contacts with other nations were the only way in which Western civilization and material advance were spread to benefit all. Coming from a small country like Hungary, Bela was more subtly attuned to the liberating forces of international trade, commercial and cultural contacts.

Professionally Bela eschewed the massive complex modelling of economics that was then so fashionable and that then addled many an able brain. He forged his chain of argument in short sharp links. And while all the large complex models were suffocated by their pseudo

sophistication, Bela's propositions on trade and development stand more firmly today than they ever did.

Whatever task Bela undertook, he discharged it with a determination and thoroughness that I could only admire – even envy. He was the terror of lazy-minded administrators. I recall when, elected to the Academic Council of Hopkins, he became convinced that tuition at Hopkins was far too low relative to alternative schools. For its own reasons the administration was opposed to a tuition hike. Bela advanced his case with a massive statistical analysis and a thoroughly argued and documented brief. Of course, he won the argument.

Nor was it only his work that brought forth this astonishing energy and organization. Bela and I shared a love for opera which we used to discuss on the frequent occasions that he accompanied me on the journey from Hopkins to Washington. Both of us collected opera videos with equal enthusiasm. But compared with my haphazard inventory Bela's collection was well-recorded and superbly organized. For the most part I, with only the tiniest twinge of conscience for being a free rider, was content to accept Bela's enthusiastic offer to lend me any items I wanted.

But Bela's generosity to me extended far beyond opera. He had the model life, I thought, for a policy economist – one foot in academe and one foot on the quarter-deck of the Bank. He encouraged me to join him at Hopkins and the Bank. Eventually in 1976 I did. That was an important turning-point in my life for various reasons. But Bela had an even bigger influence on me later. In early 1980 I was dithering over an invitation to return to London, from my agreeable Hopkins/Bank position, to become the economic adviser to Mrs Thatcher. I had all sorts of reservations which I aired to Bela. But with that magnificent finality of judgment Bela said: "Of course you must take it. It is your great opportunity." He was right. I realized this when I could collect my thoughts. All the niggling doubts and uncertainties were trivial compared with the opportunities. Bela's view had a profound effect on my decision. I told him later – indeed much later in 1989 – of the importance I placed on his advice. I believe he was pleased – truly he had every reason to be. He said that he knew I would go to London, but he had doubted whether I would return to Hopkins/Washington. Again, although I did return, Bela was nearer to the truth in his prediction.

Stories of Bela's fabulous ability to do three things at the same time abound. In a seminar he would simultaneously listen to the speaker and write a paper – and even, on occasion, engage in an intermittent

sotto voce conversation (often with me). The really extraordinary thing was that he did all very well. His seminar comments and papers were all pithy and to the point. No one has really explained to me how Bela managed to do so many things so well at the same time. I think it was part of his genius which we, who lack such astonishing abilities, can only admire and never seek to emulate. The 27 books and 270 articles speak volumes! But Bela detested any waste of his time. He regarded his time as a precious wasting asset. How right he was! We had all hoped he would be with us for two or three more decades.

The loss is all the more poignant because, just as cancer struck, his beloved Hungary and all central Europe shook off the yoke of totalitarianism. Who better prepared and worthy to advise on this grand transition than Bela Balassa? He had the knowledge, the intellectual agility and the surety of fundamentals which can be gained only from long reflection and scholarship. Bela knew what would work and what would not – and indeed what was right and what was wrong. Although he made signal contributions (to the Hungarian Blue Ribbon Commission for example), the damned malignancy took its toll. His return to Budapest to receive all honours was a rare celebration of his incomparable will. Through all the pain and suffering he saw his ideas triumph. That is a lot.

Finally, in this immensely productive life as a professional economist *par excellence*, Bela also cherished a close and affectionate family. He always had time for Mara, Gabor and for Carol. When we talked about his children, a soft tenderness suffused those large brown eyes. He understood.

SIR ALAN WALTERS