

Book Reviews

Paul Cook and Sarah Mosedale (eds.). *Regulation, Markets and Poverty.* Cheltenham, UK: Edward Elgar, 2007. Price not given.

Most developing countries have been pursuing structural adjustment programmes, driven by the World Bank and the IMF, for more than 25 years without initially recognising the importance of regulation for economic liberalisation. Without regulation, the potential advantages of liberalising markets were in danger of being diminished in terms of improved efficiency and welfare. As a consequence, new forms of regulation have been emerging that cover health, environment, industry, employment and so on. This book examines the concepts and theories that have driven these reforms and the particular contexts that have influenced and conditioned them.

The research presented in the book was carried out at the Centre on Regulation and Competition (CRC), University of Manchester, the United Kingdom, over the past five years. It contains fourteen chapters organised in five parts: competition, regulatory governance, regulation, capacity building and poverty.

The first part, comprising three chapters, deals with competition and competition policy, and shows that economic change depends on the competitive process in which enterprises are displaced, replaced and self-transformed as they grow at different rates. At the heart of this transformation is innovation that depends critically on the institutions of the market. But if markets are to generate innovation, then innovation systems are needed that connect enterprises with other knowledge-holding and generating organisations.

The book also shows that it is only recently that developing countries have begun to engage with competition policy. Evidence from South East Asia suggests that carefully designed state intervention has enhanced competition rather than inhibited it. Countries that have achieved more competition in their domestic economics have also seen their competitiveness in international trade increase. Without effective competition policies, privatisation and trade policy are much less likely to benefit the economy.

Part II of the book considers the issues of regulatory governance and regulatory transfer. The argument put forward in this part is that, where corruption is deeply embedded in social behaviour, it may be more effective to focus on reducing opportunities for corruption rather than attempting to enforce anti-corruption measures. Regarding the working of regulatory reforms, the evidence shown is that where privatisation has been undertaken in a hurry, under intruded pressure, and in the absence of good regulatory controls and competent institutions, the result has been the massive enrichment of a small élite and enormous increase in poverty. Policy-makers thus need good quality information on how the complex negotiated process of regulation works in other countries.

Part III concentrates on aspects of utility regulation and highlights two particular problems associated with utility regulation: hold-up and information asymmetries. Hold-

up occurs when investment in infrastructure is made, often involving large sunk costs, which provides opportunities for opportunism or gaming by regulators and firms once contracts have been negotiated. The effectiveness of regulation is also impaired by failures to obtain adequate information. Overall performance, measured in terms of operational and financial variables, has declined for many utilities since privatisation. The sequencing of competition, regulation and privatisation matters. Utilities tend to perform better when the first two elements precede the latter. The analysis found marked regional differences in awareness and implementation of regulatory impact assessment (RIA). In general, the level of awareness and the application of RIA was higher than we originally anticipated. Unsurprisingly, though, even in countries where RIA has been adopted in a manner consistent with OECD principles, there is evidence of inappropriate policy transfer.

Part IV discusses the need for capacity building when dealing with regulation and competition policy. It stresses the need to move away from a prescriptive approach towards one focusing on capacity building. An alternative approach is proposed that uses two diagnostic models, elaborated through research, to develop 'good partnership' in capacity building. The approach outlined has been designed to help regulators answer critical questions in pursuit of developing and improving regulation. The tools for capacity building have been designed to support the strategic-level diagnostic models.

The final part of the book addresses issues of regulation and competition in relation to poverty. The MDGs target to halve the number of people without sustainable access to safe-drinking water by 2015. Water is critically important for poverty reduction. The analysis recognises that more work is needed to discover the best ways to deliver subsidies in different context.

Regarding poverty and inequality, the book indicates that improved competition in medium-level technology industries could potentially reduce the large inequalities in income in developing countries. The development of infrastructure services (power, water, telecommunication and transport) contributes to both livelihood promotion and protection and to economic growth. Whether the privatisation of infrastructure has benefited the poor is harder to answer since existing research is both scarce and inconclusive. Privatisation alone is unlikely either to improve the performance of utilities significantly in the longer term or to improve access and affordability for the poor without accompanying competition and regulation and better developed subsidy schemes.

In short, this book is a welcome addition in the literature on competition, regulation, regulatory governance and poverty, and has identified areas that warrant further investigation. It has successfully presented the research carried out at the CRC in a non-technical manner, which makes it useful for a wide spectrum of readers, collectively engaged in research, policy and practice.

G. M. Arif

Pakistan Institute of Development Economics,
Islamabad.