was left behind. Within this context, Collier calls for temporary protection for the bottom billion from Asia so that the bottom billion can compete and integrate into the world market. Specifically, Collier maintains that imports from the bottom billion should be subject to lower tariffs relative to those levied on the same Asian imports.

Collier situates *The Bottom Billion* between Jeffrey Sachs's *The End of Poverty*, which is critical of the lack of aid to developing countries, and William Easterly's *The White Man's Burden*, which is critical of efforts to use aid to assist developing counties. Some may find this 'middle of the road' approach more palatable than the positions taken by Sachs and Easterly. However, Collier's analysis suffers from several important shortcomings.

While Collier chides Easterly for being overly cynical toward developed countries' ability to aid the bottom billion, he fails to adequately address the issues with intervention that Easterly raises. In his writings, Easterly emphasises the dual problems of incentives and information. Reformers often lack the incentive to utilise aid effectively and also lack feedback loops to ensure accountability and the effective use of aid. Collier clearly recognises the incentive problem facing both reformers and international aid organisations. For example, Collier notes that the incentives facing aid agencies 'encourage low-risk, low administration operations that are the precise opposite of what they will need to be doing to meet the coming development challenges'. However, he never provides an adequate solution to this problem other than pointing out that it exists and needs to be corrected. The implementation of his agenda would require overcoming these problems on a significant scale with no suggested solution.

In order to overcome the information problem, Collier calls for the creation of 'independent service authorities', which involve joint efforts between the governments of the bottom billion, civil society and donors to build alternative mechanisms for supplying public goods and services. In theory, these service authorities would be held to a higher level of scrutiny by donors and NGOs. However, the proposal fails to provide an adequate solution to the problem of co-ordinating the agendas of the various parties involved and the need to align their incentives so that goods and services are provided in an effective manner.

Another problem with Collier's analysis is that while he is critical of those who are sceptical of the effectiveness of aid and intervention, he fails to extend this same level of criticism to his own policy agenda. For instance, while he discusses the 'global public goods' generated by interventions, there is no mention or discussion of the associated 'global public bads' that such interventions can generate. Consider for instance the case of military intervention. It is true that these interventions can prevent conflict and create order and peace. But they may also contribute to global conflict (e.g. 'blowback'), the emergence of special-interest groups and cronyism, the destruction of indigenous norms, and the emergence of illiberal leaders and oppressive regimes, among other bads.

Overall, Collier's analysis provides important insights into the causes of sustained poverty. However, most of his proposed remedies are based on questionable assumptions. Collier assumes that we know what actions need to be undertaken to generate economic development and that these actions can be carried out in an effective manner. In reality, we have reason to be sceptical of both of these assumptions. We still lack an understanding of how to generate economic development via external intervention, as well as the potential for negative consequences that such efforts can generate. Further, even if we did possess such knowledge, political institutions, both in the bottom billion and in developed countries, often generate perverse outcomes even when motivated by the best of intentions. This is especially problematic for Collier's policy proposals that rely on direct interventions in the form of targeted aid and military intervention and occupation. The end result is that while calls for enlightened interventions may be endearing, they are more likely to fail than succeed.

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THE POLITICAL FUTURE OF SOCIAL SECURITY IN AGING SOCIETIES

Vincenzo Galasso

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For many years, this reviewer has been swimming against the tide on UK pensions policy. Prevailing thinking is that there is too much provided by way of means-tested benefits; that private pension schemes are risky, expensive and unsuitable for 40% of the population; and that contracting-out of the state scheme is inherently poor value and causes huge complexity that undermines private provision. The first of these problems is very real but almost all the solutions that are proposed would make the situation worse. The second apparent problem simply assumes away the risks and costs of state schemes. The third problem is a myth – complexity has arisen because of the way in which the government has managed contracting-out rebates and changed the state scheme from which private schemes can opt out. The proposed solutions to these problems can be divided into two groups: socialist solutions based on increasing state pensions and corporatist solutions that involve forcing people to contribute to highly-regulated private schemes. Proponents of genuine free markets are few and far between.

Indeed, there seems to be little fresh thinking going on in the Anglo-Saxon economics profession about pensions policy. The literature is ridden with references to market failure in private provision. There is little, if any, serious literature on the greatest failure of all. When we set up a state pension scheme, voters can go to the polls and vote themselves pensions at the expense of other voters and potential voters, including people who are not old enough to vote and people who have not yet been born. A whopping externality, or social cost, can be imposed by one group of voters on another. This externality has reached over 100% of GDP in most developed countries. Fortunately, there are economists in continental Europe who are researching this issue and the latest outstanding contribution is this book by Vincenzo Galasso. In a short, but excellent, book he analyses in great detail and with admirable rigour how population trends and trends in public finances will affect 'public choice' of pensions policy at the ballot box.

There is a predicted rise in pensions spending in most developed countries as the population ages. Reform in some systems is urgent. But, how can we reform pensions if the weight of votes prevents us from doing so? Galasso analyses all these problems in one book in a way that surpasses any other contribution to this literature. As he notes, the problem that pensioners will form an increasing proportion of voters at a time when pension reform is urgent, is exacerbated by the fact that pensioners' political preferences are pretty homogeneous. They can vote as a unit to prevent meaningful reform. Further power is added to pensioner groups by their higher turnout at elections.

After outlining the crucial features of the debate, there are a couple of chapters on theory. There are some interesting insights here that are drawn out in plain English – though the mathematics is complex. Most readers will want to read some of the paragraphs and skip the maths: that can be done without loss of continuity. Then each country is examined in turn looking at the institutional, economic, demographic and political background before presenting some empirical calculations. Younger readers may wish to sit down before they read the results of the empirical calculations: they will be paying the bills and might be in for quite a shock. In Spain, for example, we might see contribution rates rising to 50% of earnings – somewhat less in the UK.

The book analyses reforms that may be possible – a deferred raising of the retirement age seems easier than cutting benefits. The author also suggests that pensions policy could be handed to the European Commission: though he points out the disadvantages of this too. That suggestion will not have most readers of this journal writing to him to offer congratulations. However, pure, unconstrained democracy is going to be an increasingly bad instrument to run economic policy as the number of voters with preferences very focused on pensions issues rises. Bastiat wrote about how an absolute democracy will lead to everybody plundering everybody – and hence we have seen tax burdens rise and rise as the franchise has been expanding. The cards are stacking up so that democracy is increasingly being used by the old to plunder the young. Anglo-Saxon pensions economists need to wake up! By focusing on the little picture of market failure they are missing the big picture. They should look at the work that is being done on the continent on the gigantic government failure of state pension schemes. I should end by saying that the use of the phrase 'government failure' is mine and not that of the author. The author is impeccable in producing a dispassionate analysis and not mixing normative with positive analysis.

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KEYNES, THE KEYNESIANS AND MONETARISM

Tim Congdon

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The question of the direction of causation is usually an interesting one. In this case: did Tim Congdon take up financial journalism because he was a good writer or did he become a good writer by doing financial journalism? Either way he has produced a highly readable stream of papers over the years, much of it when he was a commentator and much when he was running his research consultancy and as a freelance contributor to other outlets.

The book under review is the second collection from his considerable output, this time largely from the years after 1992 but with one or two earlier pieces included from the 1970s. The material ranges over newspaper columns, book reviews, lectures and longer essays; and most of it has been re-written, some of it heavily. Does a question arise here over whether and how much of this should be done?

First there is a very useful and good-length introduction with a long appendix on the output gap. The introduction explains the issues that arose in the great debates of the 1970s between what were called Keynesians and monetarists, debates that later died down but have never completely died. There are then six parts to the book and a total of 15 chapters. The parts largely reflect a chronological development: Keynes and the Keynesians; the so-called Keynesian revolution; defining British monetarism; the debate on the 1981 Budget; did monetarism succeed; and a final part called 'How the Economy Works' dealing with asset prices and the real economy, and the transmission mechanism. That final chapter is heavily autobiographical describing how Congdon came to his understanding of the importance of broad money as against narrow and thence to the transmission mechanism.

A considerable puzzle in British economic life in the post-World War II years is why money and monetary policy were relegated to the lowly, indeed almost insignificant, role that they had. That did not happen everywhere, not in Germany for example and not in Switzerland. The common explanation is the perceived poor performance of monetary policy in the 1930s and the rise of an alternative way as found in Keynes's *General Theory*. While Keynes had written a great book on monetary theory in the 1920s, the circumstances of the 1930s were said to have required different analysis and policy. In fact, British economic performance in the 1930s was the best it had been in a very long time. Growth was strong after the abandonment of the gold standard (1931) and prices stable to gently rising; and that was all before the *General Theory* could have had any influence. Be that as it may Congdon shows that there then developed a large difference of view between Keynes and the followers who called themselves Keynesians. The latter rejected a monetary explanation of inflation, turning instead to cost–push factors. These were mainly found in labour costs and were believed difficult to combat in the face of powerful labour unions. Some kind of negotiated incomes policy was seen as the only solution. This was one big difference with the United States. The cost–push approach also