

Book Reviews

Peter Heller, *Who Will Pay? Coping with Aging Societies, Climate Change and other Long-Term Fiscal Challenges*. Washington DC: International Monetary Fund, 2004.

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Analysing public finance dynamics across advanced and emerging market economies, Peter Heller deploys an approach that is both orthodox and iconoclastic. He argues, like other authors, that policy-makers suffer from myopia in appraising fiscal risks. But he also stresses the market risks of delay, challenges conventional risk concepts as too narrow, and criticizes many reform models as unbalanced. Taking the reader through these issues, Heller manages to be profound without being pompous or jargon-ridden. This is a unique service in an area that is undeniably complex, yet cries out for wider debate and popular understanding.

The substance of Heller's arguments are rooted in fiscal orthodoxy – and from an IMF stable, one would expect no less. His central concern is that policy-makers may continue to postpone action, particularly given the wide technical uncertainties, a range of key changes, and interdependence between the outcomes. But he underscores that policy-makers who delay may pay a market penalty. A key message of the book is that market myopia eventually comes to an end. Within a few years, longer-run fiscal risks will come into the time-horizon of financial operators. Once that occurs, reformers will fight an uphill battle to stimulate growth and employment in a setting of adverse expectations and higher premia on benchmark debt. Then, as Heller notes, households' responses may increasingly offset governments' macroeconomic initiatives. Perhaps we are having a foretaste of this already as EU households hesitate to spend their tax cuts in a world of uncertainty about unreformed state pensions.

This book also differs from others in the breadth of long-term fiscal issues covered. Readers expecting another volume on demographics or pension reform, will find that additional shocks – climate change, environmental degradation, AIDS – are promoted to comparable treatment in terms of the uncertainties they create for public finances.

When he turns to reform options, Heller again takes clear delight in tearing down some idols. While not exhaustive, here are three conventional wisdoms that Heller questions. First, in a policy world dedicated to medium-term rules, Heller argues the need to base approaches more securely on long-term analysis – and to cater for uncertainty by keeping in reserve elements of policy flexibility. Long-term factors, he notes, are only formally incorporated in the budget process in Australia and the UK. Second, the Asia Syndrome comes under warranted attack. This holds that 'younger' states will rebalance the global economy without policy reform among their 'ageing' colleagues. The book argues that this ignores the underlying similarity of ageing cycles – in some cases with a lag – in many of the

larger emerging market economies. It is a timely reminder when US fiscal policy is raising the stakes in terms of global imbalances and doing so in tight symbiosis with Asia. Third, corner solutions are not spared. For example, approaches based exclusively on raising national savings by contracting public deficits are also subjected to the Ricardian critique that households may offset this. The need to reform entitlement programs and labour market policies is stressed.

This book is self-contained, but should provoke further research in several of the areas it covers. For example, it surfaces key questions about the way reforms and private sector expectations play out across the economy. One concern is that declining interest rates may raise the bar facing pension pre-funders. A second is that higher marginal tax rates will damage incentives, meaning that policy inaction proves particularly debilitating. A third is that, under uncertainty, the expected joint welfare impact of reforms varies widely. These concerns pose analytic challenges, but also prompt the hope that some combination of measures could defeat Pollyanna detractors by showing favourable impacts over widely varying scenarios.

A further issue raised is how households and pressure groups will react in their preferences under different ageing scenarios. Will they tolerate higher inflation, for example? This is a question stressed by Jeffrey Sachs in his preface, and flagged elsewhere by Brunel University's Philip Davis. To understand these issues better, we would need to follow Richard Rose's advice and try to model more strictly the multiple streams of income of households. And, beyond these analytic issues, Heller stimulates operational questions, too. What institutional changes, for example, could help buttress public finance reform? One thinks of the national fiscal watchdogs suggested by the European Commission's Andre Sapir.

Apparently the IMF allows a sabbatical, which Peter Heller took to write this book, only once in seven years – time-off for good behaviour. Still, one must hope that this book will be followed by a successor to explore such fertile new themes.

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Robert A Moffitt (ed.), *Means-tested Transfer Programs in the United States*, National Bureau of Economic Research and University of Chicago Press, 2003, 644 pp.

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The complexity of means-tested programmes in the US and the fact that many of them are administered at state level put them beyond the reach of many public policy analysts – single parent benefits or 'welfare reform' always excepted. Yet they are crucial to poor people not just in the material help they give but in the incentives they signal. They shape poor families' responses in perverse as well as sometimes positive ways. They have been increasingly important in most advanced economies. The onward march of universal programmes ceased with the economic crises of the 1970s and with the growing worry about the growth of long-term unemployment. That seemed to be caused in part by the structure and generosity of some benefits. The fiscal crises of the 1980s led most governments to reconsider the merits of targeting and of administering programmes for the unemployed. Families with children and means-tested support for them have also been significant in policy debate. Yet each country had its own highly distinctive

array of means-tested programmes. They are grounded perhaps more deeply in a country's past than their relative modern social insurance schemes. Each is administered in separate boxes with overlapping and pernicious effects that only became slowly understood.

This volume is a very valuable reference point, since each of the major means-tested programmes in the US is addressed in detail by leading scholars. The history of the programme, its key elements, differences by state, spending trends and programme changes are outlined with the best research summarized. The book moves from Medicaid, through the Supplementary Security Income Program, the Earned Income Tax Credit, and Temporary Assistance for Needy Families and food programmes to smaller ones like child care and housing. I find it difficult to fault each of the chapters taken on its own, though not an expert on each area, as if anyone can be! They were prepared for a conference in May 2000 and this is a collection of the revised conference papers. It is of a standard that one has come to expect of the NBER. It will be a starting point for anyone who wants to begin to get a grip on this important area of public policy. The chapter on the Supplementary Security Income Program is particularly welcome. It is the nearest thing the US has to a national safety net for those who cannot work due to age and disability and has grown enormously. It raises the same kinds of issues European countries have with disability and long term sickness benefits, but it rarely gets much attention.

What I miss, however, is any attempt to look overall at the issues that this diverse pattern of benefits raises. The interaction of each on work and savings incentives and on state and federal spending is mentioned as asides in some of the chapters but not taken head on. The introductory chapter does not attempt to do so. It summarizes each chapter and includes some overall summary statistics but no more. That is perhaps an unfair reaction in the sense that the conference and the volume never set out to do more than chart the terrain. But perhaps they should have done.

It also goes without saying that an American volume by American academics contains little or no awareness of what has been happening in Europe, Canada or Australia. These countries have been following and copying some American innovations like the Earned Income Tax Credit in the UK, and doing it rather better in some respects! Means-testing has become a dominant mode of cash-benefit delivery in the UK. So this will have an interest for those outside the US and will be a good starting point for scholars who want to follow up such themes.

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