

Preface

This book grew out of my work experiences. After undergraduate and masters training in economics, I began working in Southeast Asia on economic development issues, first in Thailand in 1967 and then as program economist for the U.S. aid program in Indonesia in 1969. It was an exciting period for analysts and participants in Indonesian economic policy. The economic disintegration of the Sukarno period was halted by President Suharto in 1967, reversed in 1968, and by 1970 it was clear that a dramatic turnaround in economic performance had been achieved.

In the 1970s the "Indonesian economic miracle" was being widely reported in the press, and many claimants were anxious to take responsibility for the results. The record was impressive: between 1965 and 1970 inflation dropped from over 600 percent to 10 percent per year, exports recovered, economic growth resumed, and new investment surged. Some argued that the Indonesian technocrats who designed and implemented the stabilization program deserved the primary credit for the economic revival; others noted the high level of private capital inflows; considerable attention was given to the massive transfers of bilateral and multilateral aid; and still others saw the Indonesian events as evidence of the benefits of turning away from centrally directed socialism to market-oriented policies. Some even began to refer to the archipelago's performance as the Indonesian model for economic development.

Yet as a participant in the aid process, I was continually struck by how atypical the circumstances in Indonesia had been. The attempted coup in 1965 led to the decimation of the communist party and discredited the far Left. The socialist and nationalist parties were identified with the decay of the Sukarno period. This left the army and the economic technocrats as the principal source of political legitimacy. Moreover, Indonesia's rich natural resources and key strategic location made it attractive for both government aid and private capital. Also, the vast majority of the Indonesian population

are relatively self-sufficient farmers who do not depend on imported goods. This overall set of characteristics meant that the Indonesian economic policymakers could vigorously attack inflation, count on large new flows of foreign resources, and be confident of minimal political opposition. Few other developing countries could make economic policy in such a setting.

On returning to the United States, I worked at the National Bureau of Economic Research where Jagdish Bhagwati and Anne Krueger were directing a twelve-volume series, "Foreign Trade Regimes and Economic Development." This outstanding project covered a broad range of less developed countries (LDCs) and analyzed how trade policy affects economic performance. I then decided that it would be useful as a complement to the economic literature on trade and development to do a study that formally linked the political setting with the economic policy choices that national leaders must make.

The first cut at this problem was in my subsequent Ph.D. thesis at the Massachusetts Institute of Technology, "Aid: High Politics Technocracy, or Farce?" This initial effort led me to the three devaluation cases presented in this book, but it focused more on aid issues and the politics of multinational consortia rather than the internal choices developed here.

In deciding on the precise agenda for this book, I set three basic goals: to explain the complexity of a currency devaluation from the perspective of an LDC government, to present devaluation as a striking political-economy problem where there are major political constraints to economic choice and economic constraints on political strategy, and to develop three devaluation cases that were historically significant and representative of the situation facing LDC governments.

Chapters 1 and 5 set the context for and draw the conclusions from the study but are written using a wide range of other cases as well and are meant to help generalize about devaluation in LDCs. Chapters 2, 3, and 4 were selected to be representative but also have a considerable body of detail that will be of interest to country and area specialists. I have thus divided those chapters into two parts: the main text, which uses the theoretical framework for analyzing the devaluations, and chronologies, which provide extra historical background and detail.

Much of the information here is new and in some cases will be quite controversial. The summary of the Woods-Mehta agreement presented in appendix 2B is the first publication of the details of a historic document. The Indian government has kept the existence of this agreement hidden from its own people for nineteen years and has expressly asked the World

Bank not to release the document. I have seen a copy of the agreement and took precise notes on it.

All three case studies include details of government decision making that cast key individuals in more or less favorable light. The only way to do this type of research was to talk extensively with the individuals directly involved and then to cross-check the material they provided with other written or verbal sources. Many individuals granted interviews on the condition that they not be quoted. I have respected their requests and thus have much material that lacks references. For readers' information, I have listed at the back of each case study the names of the people interviewed. I made it a firm rule to include material only if it had been cross-checked with at least one other participant, and in most cases the material was confirmed by several sources.

A project such as this could not proceed without advice and assistance from a large number of people I wish to thank all of those who helped me as the research, writing, and revisions proceeded. Special thanks go to Lucian Pye who chaired my Ph.D. dissertation and continuously urged me to probe for the counterintuitive aspects in the behavior of the decision makers I was analyzing; to Myron Weiner who deftly led me into the complexities of Indian politics and gave me considerable advice on conducting field research; and to Everett Hagen and Jagdish Bhagwati who made insightful comments as the project was developing. John P. Lewis and Bernard Bell were exceptionally helpful in recounting their experiences in the events and in providing perspective on the subsequent developments. The India research was aided by S. Lateef and L. Jain, the Indonesia work by N. Kairupan and A. Shakow, and the Ghana work by J. Odling-Smee and T. Killick. Travel to the countries and early research was supported by the University Consortium for World Order Studies; subsequently New York University provided a stimulating setting and encouragement as the final drafts proceeded. Mention should also go to E. Rosenthal, J. Hart, N. Abdolal, and C. Labio who helped with key research assistance and to D. Bula who conscientiously typed the manuscript.