ment, should be removed. Intermittent movements of capital for other purposes and destabilizing speculative capital flows were best avoided in the long run by consistent domestic macroeconomic policies rather than rigid controls on capital account convertibility.

Nurkse did not believe in a global regulatory agency or international governance structure, and favoured instead spontaneously developed mutually self-interested responses to the organization of cross-border monetary arrangements. For him, the IMF should be a flexible agency for the coordination and consultation among countries with similar macroeconomic objectives and for the coordination of crisis advice and recovery measures.

Lastly, the authors review the discussion, of the mid-1940s, of the state's role in achieving full employment, economic stability, equity and freedom. The following impressive passage from James Meade (1948: pp. v–vi) quoted by the authors gives a good flavour: 'a large measure of state foresight and intervention is required to guide the economy from war to peace, to prevent inflationary and deflationary pressures to ensure a tolerably equitable distribution of income and property, and to prevent or to control the anti-social rigging of the market by private interests, but … these objectives can be achieved in an efficient and free society only if an extensive use is made of the mechanisms of competition free enterprise and the free-market determination of prices and output'.

This is a highly useful sourcebook, made better still by the clarity of presentation and penetrating analysis.

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Financial structure and economic growth: a cross-country comparison of banks, markets, and development. Edited by Alsi Demirguc-Kunt and Ross Levine. 2001. Cambridge, MA: MIT Press. 444pp. Index. $45.00. ISBN: 0 262 04198 7.

Raymond Goldsmith's seminal book, *Financial structure and development* (1969), had three goals: to document how financial structure changes as economies grow, to assess the impact of financial development on economic growth and to evaluate whether the financial structure influences the pace of economic growth. Goldsmith did document the evolution of national financial systems successfully—especially the evolution of financial intermediaries—but owing to lack of data he was unable to address the latter two objectives. The book under review adds empirical evidence and allows the authors to answer Goldsmith's three questions.

The first part of the book fills in Goldsmith's documentation of the evolution of financial structure during the process of economic growth. The cross-country data set that accompanies the book is then used to address the relationships between economic growth, the level of financial development and the structure of the financial system. Finally, a few country studies examine the relationship between economic development and financial structure.

The data set provided on a CD that comes with the book is taken primarily from the World Bank database, and covers 175 countries during the period 1960–1997 (data are not available for all countries or for all years). The first set of measures compares the size and activity of central banks and other financial institutions relative to each other and relative to GDP. Another set provides indicators of the efficiency and market structure of commercial banks and the size and activity of other financial institutions, such as savings banks, cooperative banks, mortgage banks, building societies, finance companies, insurance companies, private pension funds, pooled investment vehicles and development banks. The final area measures the size, activity and efficiency of primary and secondary stock and bond markets.

Economists and policy-makers have been debating the relative merits of bank-based versus market-based financial systems, and this book provides a discussion and empirical analysis of this issue. The former are exemplified by Germany and Japan, where banks play a leading role in mobilizing savings, allocating capital, overseeing the investment decisions of corporate managers and providing risk-management vehicles. The United Kingdom and the United States are market-based financial systems, where securities markets as well as banks facilitate the flow of society's savings to firms, exerting corporate control and easing risk management. However, classifying countries as bank- or market-based is not a very fruitful way to distinguish financial systems. The results indicate that although overall financial development is robustly linked with economic growth, there is no support for either the bank-based or the market-based view.

Whether a market-led system is superior to the bank-driven financial system is a very difficult proposition to prove, because if that were true, we would not have had the 1987 market crash in the industrialized countries in which the central banks rescued the stock market via their banking sectors. Further, speculative activities drive capital flows in the secondary market, which are not primarily driven by economic fundamentals. Hence both bank- and market-driven systems are complementary to each other, and banks are the key players in developing stronger markets. Securities markets are, however, superior at providing long-term financing, while the banks have a comparative advantage in providing short-term financing, particularly to small and medium enterprises which are financially constrained and have little access to the capital market.

The book also provides information on the legal, regulatory, tax and macroeconomic determinants of financial structure. The conclusions are not surprising. Financial systems are more developed in richer countries, and stock markets become more active and efficient relative to banks. Interestingly, as a broad generalization, countries with a common law tradition, strong protection of shareholder rights, good accounting regulations, low levels of corruption and no explicit deposit insurance tend to be market-based. By contrast, countries with a French civil law tradition, poor protection of shareholder and creditor rights, poor contract enforcement, high levels of corruption, poor accounting standards, restrictive banking regulations and high inflation tend to have underdeveloped financial systems.

The general conclusions of the book are summarized as follows: 'Overall financial development matters for economic success, but financial structure per se does not seem to matter much. Thus, policy-makers may achieve greater returns by focusing less on the extent to which their country is bank-based or market-based and more on legal, regulatory and policy reforms that boost the functioning of markets *and* banks'. The book adopts a standard approach of using a cross-section of countries to test the relationship between finance and growth, although a cross-country analysis provides over-simplified results in that they might not accurately reflect individual country circumstances. The use of time-series estimations on individual countries could exhibit some variations across countries, even with the same variables and estimation methods.

The data supplied in this book are indeed a basis for further research in the area of financial structure and development. The idea that financial structure does not matter much is a valuable insight that gives financial analysts some reason for reflection. For the researcher or for anyone interested in a broad overview and statistical analysis of the international financial landscape, this book is undeniably a valuable contribution.

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The economics of essential medicines. Edited by Brigitte Granville. London: Royal Institute of International Affairs. 2002. 300pp. £50.00. ISBN 1 86203 143 6. Pb.: £19.95. ISBN 1 86203 138x.

The high price of HIV–AIDS drugs has triggered a worldwide debate about the availability of essential medicines in developing countries (where the vast majority of HIV–AIDS sufferers live). In this volume academics, policy-makers and representatives of interest groups discuss the main issues that have come up in this debate. Looking at the various questions from different perspectives, the book provides an excellent survey of diverse policy viewpoints and the relevant theoretical concepts. Sometimes the authors reach agreement on principal policy proposals. The chapters are well written and use very little mathematics. The book is thus accessible to non-economists interested in this field.

Part 1 looks at the impact of the WTO's agreement on trade-related aspects of intellectual property rights (TRIPS). Lippert presents the traditional market ('efficiency') argument for increased patent protection via TRIPS: it stimulates product innovation (in developed and